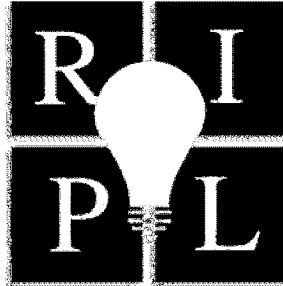


THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



JUSTICE BREYER'S BICYCLE AND THE IGNORED ELEPHANT OF PATENT EXHAUSTION: AN AVOIDABLE COLLISION IN *QUANTA V. LGE*

JOHN W. OSBORNE

ABSTRACT

The Supreme Court held in *United States v. Unis Lens Co.* that the authorized disposition of an article embodying the essential features of a patent claim exhausts that claim. The Federal Circuit's *LGE v. Bizcom* decision, currently under review by the Supreme Court in *Quanta v. LGE*, improperly held that patent exhaustion could be disclaimed by contract. Patent exhaustion is a limitation on statutory rights which cannot be expanded by contract. Moreover, *Quanta v. LGE* is governed by the contributory infringement statute. Contributory infringement and exhaustion are opposite ends of the same principle in the *Quanta v. LGE* factual scenario. The statute provides a right to recovery for a component embodying the essential features of a system or method patent and exhaustion precludes a further recovery for the same invention. Reversal in *Quanta v. LGE* is compelled on its specific facts, but there is no basis for a broad holding which would govern the disposition of components which do not contributorily infringe or which are separately and distinctively patented and not otherwise licensed.

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Cite as John W. Osborne, *Justice Breyer's Bicycle and the Ignored Elephant of Patent Exhaustion: An Avoidable Collision in Quanta v. LGE*, 7 J. MARSHALL REV. INTELL. PROP. L. 245 (2008).

JUSTICE BREYER'S BICYCLE AND THE IGNORED ELEPHANT OF PATENT
EXHAUSTION: AN AVOIDABLE COLLISION IN *QUANTA V. LGE*

JOHN W. OSBORNE*

INTRODUCTION

Patent exhaustion has never been considered a straightforward doctrine, despite its apparently simple doctrinal basis—i.e., that the first authorized vending of an article within the scope of a patent extinguishes any right to subsequently assert the patent.¹ But the absence of coherency in application of the exhaustion doctrine should not be sanctioned for adoption by the Supreme Court of either the Petitioners',² Respondent's³ or Solicitor General's⁴ ill-conceived views in *Quanta Computer, Inc. v. LG Electronics, Inc.*⁵

The parties and amici in *Quanta v. LGE* have proposed either (1) eliminating any ability to restrict downstream use of a product made under a patent (Petitioners)⁶ or (2) allowing an essentially unfettered right to restrict a purchaser's use rights by contract (Respondent).⁷ Both approaches ignore the actual rights granted to a patentee by statute; instead hoping to sway the Court with purported "policy" arguments which are in fact little more than self-interested hand-waving having little relation to exhaustion precedent and the governing statute. These policy arguments ostensibly relate to, alternately, the advisability or inadvisability of tiered licensing structures based on economic grounds. Such policy considerations are not necessary to resolve *Quanta v. LGE* and need not be addressed in setting a clear directive regarding the patent exhaustion doctrine. Congress and the Supreme Court have already defined the bounds of the patent exhaustion doctrine in the *Quanta v. LGE* factual scenario.⁸

The Petitioners' and Solicitor General's briefs argue for a strict application of the patent exhaustion doctrine, i.e., absolutely no restriction or disclaimer.⁹ The Solicitor General argues that the Federal Circuit's mistakes in *LG Electronics, Inc. v. Bizcom, Inc.*,¹⁰ the appeals court decision before the Supreme Court in *Quanta v.*

* Partner, Morgan & Finnegan, L.L.P., New York. The views expressed herein are those of the author alone and do not necessarily reflect the views of Morgan & Finnegan, L.L.P. or its clients.

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¹ *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).

² Brief for Petitioners, *Quanta Computer, Inc. v. LG Elecs., Inc.*, No. 06-937 (U.S. Nov. 5, 2007).

³ Brief of Respondent, *Quanta Computer, Inc.*, No. 06-937 (U.S. Dec. 3, 2007).

⁴ Brief for the United States as Amicus Curiae Supporting Petitioners, *Quanta Computer, Inc.*, No. 06-937 (U.S. Nov. 13, 2007).

⁵ No. 06-937 (U.S. argued Jan. 16, 2008).

⁶ See Brief for Petitioners, *supra* note 2, at 13.

⁷ See Brief of Respondent, *supra* note 3, at 15.

⁸ See *United States v. Univis Lens Co.*, 316 U.S. 241, 241 (1942); 35 U.S.C. § 271(c) (2006).

⁹ See Brief for Petitioners, *supra* note 2, at 12; Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 8–9.

¹⁰ 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

LGE, can be traced to *Mallinckrodt, Inc. v. Medipart, Inc.*,¹¹ an earlier Federal Circuit decision.¹² But the Solicitor General errs in characterizing the Federal Circuit's *Mallinckrodt* decision as inconsistent with Supreme Court precedent. The *Mallinckrodt* decision did no more than allow restrictions "reasonably within the patent grant."¹³ If the Supreme Court adopts the Solicitor General's reasoning, the patent exhaustion doctrine will preempt any attempt to apportion patent rights through any sort of "field of use" restrictions.¹⁴ This would be a major change in the law and would significantly affect longstanding licensing practices which have served to facilitate the efficient dissemination of patented technologies. *LGE v. Bizcom* was wrongly decided by the Federal Circuit, but *Mallinckrodt* can be rationalized with Supreme Court precedent without eliminating field of use restrictions entirely. If the Supreme Court adopts the Petitioners' and the Solicitor General's sweeping recommendation, field of use restrictions will no longer be enforceable and many patents will be rendered valueless simply because they are owned by an entity that sells or licenses an entirely unrelated product.

On the other hand, if the Supreme Court adopts the Respondent's view, the patent exhaustion doctrine will be entirely eviscerated and "separate" patents will allow the collection of multiple royalties without regard to whether such patents are licensed or whether the component sold under license embodies the invention of the asserted patent. Neither result is supported by statute or caselaw.

All of the problems with *LGE v. Bizcom* are traceable to misunderstanding and misapplication of precedential caselaw governing patent exhaustion and the contributory infringement statute. The Federal Circuit's failure to address the "essential features" requirement of *Univis Lens*¹⁵ is at the heart of its flawed holding in *LGE v. Bizcom*.¹⁶ "Essential features" is like the apocryphal "elephant in the room" which stands mute and ignored although all feel its presence. The essential features elephant hovers over, but is not substantively addressed by, every brief filed in the *Quanta v. LGE* case and was present at the oral argument and during the Supreme Court's deliberations.

Notwithstanding that the Supreme Court firmly enunciated the essential features requirement in *Univis Lens* and that the very same standard is incorporated into the contributory infringement statute,¹⁷ most courts and commentators have either ignored or trivialized its significance. The essential features requirement is well known to those who ponder patent exhaustion,¹⁸ but open discussion of what it

¹¹ 976 F.2d 700 (Fed. Cir. 1992).

¹² See Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 23.

¹³ *Mallinckrodt, Inc.*, 976 F.2d at 708.

¹⁴ See ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT § 14.3 (8th ed. 2007) (defining field of use licensing restrictions as those "permitting the use of inventions in one field and excluding it in others").

¹⁵ *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

¹⁶ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (disagreeing with the district court's holding that LGE did not "impose conditions on the sale of the essential components of its patented products"), *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

¹⁷ 35 U.S.C. § 271(c) (2006).

¹⁸ Essential features are also at the heart of the contributory infringement standard, but the inter-relationship of the patent exhaustion doctrine and contributory infringement statute has not

means has apparently become taboo for lack of an apparent straightforward explanation. Rather than acknowledge the essential features elephant and its criticality to the exhaustion question, the interested parties in *Quanta v. LGE* have entirely ignored it on the assumption the Supreme Court will not notice. The interested parties have instead crafted nonsensical and incoherent theories designed to win their respective arguments but with little thought to the implications if either of the posited theories is adopted. If the Supreme Court takes the bait from either side, it will do so at great risk either to end users or to owners of patent rights.

Failure to properly incorporate the essential features requirement of the patent exhaustion doctrine and the contributory infringement statute into the disposition of the *Quanta v. LGE* case risks either (1) an unfettered and unwarranted expansion of the patent exhaustion doctrine and concomitant judicial nullification of statutorily granted patent rights or (2) an unfettered and unwarranted expansion of the right to commit what has heretofore been patent misuse, including extraction of multiple royalties for the same invention. Neither scenario need happen. Reliance by the Supreme Court on its own precedent as to the meaning of “essential features” would resolve *Quanta v. LGE* without resort to esoteric policy considerations.

If the Supreme Court chooses to look away from the “essential features” requirement in its disposition of *Quanta v. LGE*, complete evisceration of a patentee’s long-standing ability to parse statutorily granted rights may well be the result. While the Federal Circuit clearly erred in holding that patent exhaustion may be disclaimed by contract, reversing that part of the Federal Circuit holding does not require broad application of the patent exhaustion doctrine as urged by Petitioners and amici in support of Petitioners, including the Solicitor General. The Supreme Court should be very careful in what it says about the right to separate royalties for patentably distinctive and otherwise unlicensed inventions. This is particularly important in the computer industry where many different component and system patents exist. Respondent and amici in support of Respondent on the other hand argue that they should have an unfettered right to restrict patent license agreements and extract multiple royalties. Neither position is correct. A solution focusing on the invention itself is compelled by the nature of the statutory patent grant as well as Supreme Court exhaustion and contributory infringement precedent.

I. JUSTICE BREYER’S BICYCLE

Justice Breyer posited during oral argument in *Quanta v. LGE* that he should be free to buy patented bicycle pedals and pedal away on any bike of his choosing without paying a further royalty for practice of a patent covering use of the pedals in a bicycle system.

been fully appreciated. This overlooked but critical inter-relationship is discussed *infra, passim*, and specifically in Section VII. *See* discussion *infra* Section VII.

Imagine that I want to buy some bicycle pedals, so I go to the bicycle shop. These are fabulous pedals. The inventor has licensed somebody to make them, and he sold them to the shop I go buy the pedals. I put it in my bicycle. I start pedaling down the road.

Now, we don't want 19 patent inspectors chasing me

. . . [W]hy can't I look at this as saying that patent is exhausted, the patent on the pedals and the patent for those bicycles insofar as that patent for the bicycles says I have a patent on inserting the pedal into a bicycle.¹⁹

Justice Breyer challenged counsel for LGE to address his hypothetical and take a position as to whether a further royalty for the system patent would be due even though the system patent incorporated the novel pedal. LGE's counsel responded that Justice Breyer indeed was required to pay a further royalty because the pedal and the bicycle were covered by two "separate" patents: "Oh, to be sure. If I have [a] separate patent on the bicycle, I'm entitled to stop people from using that particular bicycle."²⁰

Justice Breyer's hypothetical very succinctly framed the critical issue in *Quanta v. LGE*. LGE's response, however, did nothing to illuminate the issue but did serve to highlight the absurdity of LGE's position and the Federal Circuit's holding in *LGE v. Bizcom*. LGE's proposed exhaustion rule would entirely negate the essential features, i.e., patentable distinctiveness,²¹ requirement of the patent exhaustion doctrine and contributory infringement statute.

Justice Breyer's hypothetical illustrates remarkably well why patentable distinctiveness is the proper defining criteria of patent exhaustion. The hypothetical elicited laughter from the audience, no doubt because of the visual image of Justice Breyer pedaling away and the perceived absurdity of having to pay double for use of his new pedals. However, the hypo entirely failed to appreciate that the pedal manufacturer might have a different patent on a bicycle system including a novel braking component (or spoke, or handlebar, or bearing, or wheel, or seat, or frame, or chain, or sprocket, etc.). Hence, even though Justice Breyer's new pedal has no use except in a "bicycle system," it does not of necessity have to be used in the inventor's separately patented bicycle system having the novel braking component. To so argue would be equivalent to Quanta's argument that any component licensed under LGE patents can be used in any computer system to practice any LGE patent, whether such patents are licensed or not. Quanta's argument is no less absurd than LGE's argument. Only LGE patents directed to computer systems having the licensed component as their essential feature should be exhausted by the sale of the component.²² Any other result produces portfolio licensing for the price of a minor

¹⁹ Transcript of Oral Argument at 29–30, *Quanta Computer, Inc. v. LG Elecs., Inc.*, No. 06-937 (U.S. argued January 16, 2008).

²⁰ *Id.* at 38.

²¹ See, e.g., discussion *infra* Section VIII.C.

²² As discussed herein, in *Quanta v. LGE* all LGE computer component patents were licensed. For a further discussion of LGE's licensed patents, see Brief of Respondent in Opposition at 2–3, 27–28, *Quanta Computer, Inc.*, No. 06-937 (U.S. Mar. 9, 2007). Thus the only issue before the Court is

component. This is not the result sought by the patent exhaustion doctrine. The inventor is entitled to a separate royalty for the braking invention because the pedal and brake inventions are patentably distinctive. The computer component licensor is likewise entitled to a separate royalty if its asserted system patent is patentably distinctive vis-à-vis the component.

It should be appreciated, however, that separate patents do not necessarily equate to patentable distinctiveness—and in fact the opposite should be presumed where the patented component is recited as an element in a system claim (or a step reciting the function of the component is included in a method claim). Notwithstanding Justice Breyer’s desire to pedal away unencumbered, surely he would not expect a free pass to a brake patent simply because the brake invention was patented by the same inventor who granted a license to the pedal. This critical point was remarkably unelucidated by any speaker at the oral argument, but is the fundamental issue facing the Supreme Court in *Quanta v. LGE*. A bicycle pedal indeed has no other use except in a bicycle, but that fact does not mean that the pedal can be freely used in every bicycle, and specifically does not mean that the pedal can be used in a bicycle covered by a patent directed to an invention distinct from the pedal and which is otherwise unlicensed.²³ Failure to address the “distinct unlicensed invention” issue implicitly raised by Justice Breyer’s hypothetical at the oral argument in *Quanta v. LGE* will lead to the inevitable collision of Justice Breyer’s bicycle with the ignored elephant of patent exhaustion. Justice Breyer’s bicycle hypothetical is perfectly analogous to the facts of *Quanta v. LGE*: common sense application of the contributory infringement statute and governing caselaw produces the correct result in both as discussed below.

II. THE PATENT EXHAUSTION DOCTRINE

The doctrine of patent exhaustion emanates from Supreme Court precedent dating from as early as the mid-1800s, and was fully explicated in 1942 in the seminal *United States v. Univis Lens Co.*²⁴ decision. In its most elemental statement, the doctrine provides that an authorized sale of a patented article exhausts the patent monopoly as to that article insofar as the article embodies the invention and thus precludes any further royalty or restriction on the article:

whether the components embodied system and method patents as to which LGE attempted to disclaim exhaustion with respect to system integrators.

²³ See Brief of Respondent, *supra* note 3, at 6. LGE did not seek an additional royalty for its “separate” component patents. *Id.* LGE argued that these component patents were in fact the patents for which consideration had already been received from Intel. *Id.* “Intel was licensed to manufacture, use, and sell microprocessors and chipsets that embodied LGE’s component patents.” *Id.* LGE instead argued that it was due an additional royalty for the asserted system and method patents. *Id.* at 7. LGE’s “separate” component patents were thus admittedly licensed under the LGE/Intel agreement. *Id.* at 6. The “distinct unlicensed invention” issue is therefore not present in *Quanta v. LGE*. However, a broad holding by the Supreme Court which fails to properly deal with the issue risks unintentionally affecting entirely separate and unlicensed patent rights well beyond the intended purpose for the patent exhaustion doctrine.

²⁴ 316 U.S. 241 (1942).

[W]hen the patentee, or a person having his rights, sells a machine or instrument whose sole value is in its use, *he receives the consideration for its use* and he parts with the right to restrict that use. . . . That is to say, the patentee or his assignee having in the act of sale *received all the royalty or consideration which he claims for the use of his invention* in that particular machine or instrument, it is open to the use of the purchaser without further restriction²⁵

Building on earlier cases such as *Adams v. Burke*, the Supreme Court firmly established the patent exhaustion doctrine in its *Univis Lens* decision:

The patentee may surrender his monopoly in whole by the sale of his patent or in part by *the sale of an article embodying the invention*. His monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.²⁶

Although arising in the antitrust context, the resolution of *Univis Lens* was based firmly on the patent exhaustion doctrine.²⁷ The disputed activity in *Univis Lens* involved the manufacture and sale of lens blanks which embodied the essential features of patents directed to a finished lens and related manufacturing methods.²⁸ The lens blanks were without utility until ground and polished into the finished lens claimed in the patents.²⁹ The patent holder had three classes of licensees—wholesalers, finishing retailers, and prescription retailers.³⁰ The issue before the Supreme Court was whether the patentee could impose conditions, i.e., fix resale prices, on the downstream licensees after articles embodying the essential features of the patent claims had been sold by other licensees.³¹

The Court held the patent exhaustion doctrine applicable to the sale from licensees of the partially completed article (lens blank) encompassing the essential features of the patents-in-suit.³² The *Univis Lens* case arose in the context of price fixing, but its holding is clearly not limited to those circumstances. Although attempts have frequently been made to characterize *Univis Lens* as an antitrust or implied license decision, the fundamental holding was based entirely on the patent exhaustion doctrine.

Moreover, the Court quite clearly established in *Univis Lens* that the doctrine of patent exhaustion applies to the sale of a *partially* complete patented article, provided that the article encompasses the “essential features” of the claimed invention:

²⁵ *Adams v. Burke*, 84 U.S. 453, 456 (1873) (emphasis added).

²⁶ *Univis Lens*, 316 U.S. at 250 (emphasis added).

²⁷ *Id.* at 242–43.

²⁸ *Id.* at 249.

²⁹ *Id.*

³⁰ *Id.* at 244.

³¹ *See id.* at 250–51.

³² *Id.* at 249.

[W]here one has sold an uncompleted article which, *because it embodies essential features of his patented invention*, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, *he has sold his invention so far as it is or may be embodied in a particular article*.³³

The Court determined that the articles at issue included the essential features of the patents and were not capable of any noninfringing use:

[E]ach blank, as appellees insist, embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent. . . .

. . . [U]pon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.³⁴

The Court also noted in *Univis Lens* that the sale of lens blanks by an unlicensed manufacturer to an unlicensed finisher for completion into a finished product would constitute contributory infringement.³⁵ Furthermore, the Supreme Court noted that, “where the sale of the blank is by the patentee or his licensee . . . to a finisher, the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer.”³⁶ Thus, the Court found that the unfinished lens included the essential features of the claimed invention.³⁷ The patentee was held to have exhausted its patent rights with regard to the finishers, and therefore was precluded from controlling subsequent sales.³⁸ Hence, the Supreme Court concluded that the degree of “completion” of the article was irrelevant:

Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has equally parted with the article, and made it the vehicle for transferring to the buyer that article. To that extent, he has parted with

³³ *Id.* at 250–51 (emphasis added).

³⁴ *Id.* at 249.

³⁵ *Id.* The Supreme Court’s observation that the exhaustion and contributory infringement standards are identical with respect to use of an unpatented essential element in a patented method or combination resurfaced in the Court’s seminal contributory infringement decision, *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980). As discussed below, *Quanta v. LGE* involves control by the patentee over components which include the patentably distinctive aspect of system and method claims. *Quanta v. LGE* is thus fully governed by the contributory infringement statute of 35 U.S.C. 271(c) and (d). See *infra* Section VII.

³⁶ *Univis Lens*, 316 U.S. at 249.

³⁷ *Id.*

³⁸ *Id.* at 250 (“[T]he patentee cannot control the resale price of patented articles which he has sold, *either by resort to an infringement suit*, or . . . by stipulating for price maintenance by his vendees.” (emphasis added)).

his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures in him.³⁹

The analysis put forth by the Supreme Court in *Univis Lens* related to the scope of the patent monopoly in contrast to contractual analysis which underlies the related, but different, doctrine of implied license. The Federal Circuit's *LGE v. Bizcom* decision, if sustained by the Supreme Court, would obliterate the distinction between exhaustion and implied license. Such a result is unwarranted—statutory rights which have been dissipated cannot be rejuvenated by private contract.⁴⁰

As the Supreme Court's most recent and thorough treatment of the issue, *Univis Lens* is the controlling authority on patent exhaustion. The Supreme Court has never disavowed or sought to limit the exhaustion holding of *Univis Lens*.⁴¹ To the contrary, a long line of cases cites to *Univis Lens* for its holding and statements regarding patent exhaustion.⁴² In fact, prior to its decision in the *LGE v. Bizcom* case, the Federal Circuit had never strayed from *Univis Lens*. As discussed below, the Petitioners, Solicitor General and others in *Quanta v. LGE* fall short in their attempts to convince the Court that *Mallinckrodt* was a diversion from *Univis Lens*.⁴³

³⁹ *Id.* at 252.

⁴⁰ Transcript of Oral Argument, *supra* note 19, at 21 (discussing the law of equitable servitudes in relation to chattels). Patent rights are not chattels. A chattel is by definition a single "thing": however, a chattel may be covered by multiple patents and, as discussed herein, a license to practice one patent should not automatically extend to a different patent under the exhaustion doctrine unless the two patents cover the same invention. See *infra* Section VI; John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643, 687–91 (2004) (discussing how a differentiation in the basis of the exhaustion and implied license doctrines is necessary to clearly understand the Supreme Court directive in *Univis Lens* and such understanding clarifies the misapprehension which has caused confusion between the two doctrines).

⁴¹ See, e.g., *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d 1589, 1598 (N.D. Cal. 2002), *reaff'd*, *summary judgment granted in part*, 248 F. Supp. 2d 912 (N.D. Cal. 2003), *aff'd in part, rev'd in part, vacated in part and remanded sub nom.* *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (2006), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007). As explained by the district court in the *LGE* case in response to an argument that *Univis Lens* was an implied license decision:

In *Met-Coil [Systems Corp. v. Korners Unlimited, Inc.]*, 803 F.2d 684 (Fed. Cir. 1986), the Federal Circuit did not distinguish *Univis Lens*, nor did it criticize the district court's reliance on *Univis Lens*, nor did it indicate that *Univis Lens* had been refined or modified by subsequent cases. Therefore, there is no binding authority requiring this Court to treat *Univis Lens* as an implied license case. As noted above, the case does not lend itself to such a reading. Rather, consistent with the Supreme Court's holding in *Univis Lens*, the patent exhaustion doctrine applies to the sale of unpatented items that have no other function but as components in a finished, patented device.

Id.

⁴² See, e.g., *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 186 (1980); *Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422, 425 (1964); *Cyrix Corp. v. Intel Corp.* 846 F. Supp. 522, 540 (E.D. Tex. 1994), *aff'd without opinion*, 42 F.3d 1411 (Fed. Cir. 1994); *Cyrix Corp. v. Intel Corp.*, 803 F. Supp. 1200, 1214 (E.D. Tex. 1992), *appeal dismissed without opinion*, 9 F.3d 978 (Fed. Cir. 1993).

⁴³ See discussion *infra* Section IV.B.

No discussion of the patent exhaustion doctrine as applied to the computer industry would be complete without mention of *Cyrix Corp. v. Intel Corp.*,⁴⁴ a case involving a “foundry” type manufacturing arrangement. On similar facts, the district court came to a conclusion of patent exhaustion by applying the principles enunciated by the Supreme Court in *Univis Lens*.⁴⁵

In *Cyrix*, the disputed activity involved the manufacture and sale of microprocessors and chipsets, as was the case in *Quanta v. LGE*.⁴⁶ The district court noted that “Cyrix’s microprocessors cannot be used for any commercially viable purpose without necessarily forming the combination covered by—and without necessarily infringing—claims 2 and 6 of the ’338 Patent.”⁴⁷ The court held that the microprocessors had to be combined with external memory to be useful.⁴⁸ Intel, the patent owner, had entered into a cross-license agreement that involved patents covering the subject microprocessors.⁴⁹ The cross-licensee made microprocessors as a foundry for Cyrix.⁵⁰ When combined with external memory, the microprocessors sold to Cyrix infringed Intel’s patent.⁵¹ The district court likened the circumstances to those in *Univis Lens*:

Cyrix’s microprocessors . . . need to be combined with external memory to be used. Cyrix’s microprocessors thus are like the lens blanks in [*Univis*] which, although completed lens blanks, had no use other than *to* be ground into finished lenses in accordance with patents owned by the Lens Company. The Supreme Court’s rationale in *Univis*, in support of its holding that patent owners rights in the lens blanks were exhausted, is thus fully applicable here with respect to Cyrix’s microprocessors . . .⁵²

The district court in *Cyrix* found the component and combination claims to be coextensive because each included the essential features of the claimed invention:

The Intel 80286 microprocessor had on-chip segmentation circuitry and required external memory to be operable. The advance of the ’338 Patent over the memory management system used on the 80286 microprocessor was the addition of on-chip paging circuitry . . . and the ability to chose between the prior art segmentation alone and the combination of segmentation plus paging are *essential features* of claims 1 [component], 2 [combination], and 6 [combination] of the ’338 Patent.⁵³

⁴⁴ 846 F. Supp. 522.

⁴⁵ *Id.* at 540 (echoing *Univis Lens* when it held that “[t]he patent exhaustion doctrine is so strong that it applies even to an incomplete product that has no substantial use other than to be manufactured into a completed patented and allegedly infringing article.”).

⁴⁶ *Id.* at 527.

⁴⁷ *Id.* at 541.

⁴⁸ *Id.* at 532.

⁴⁹ *Id.* at 531.

⁵⁰ *Id.* at 533.

⁵¹ *Id.* at 537.

⁵² *Id.* at 540 (citation omitted).

⁵³ *Id.* at 534 (emphasis added).

The court found that the claimed microprocessor component embodied essential features of a memory management system, which included on-chip paging circuitry and the capability to switch between segmentation alone or segmentation in combination with paging.⁵⁴ Nothing in the memory itself added anything of patentable significance to the invention embodied in the microprocessor.⁵⁵ The court relied on *Univis Lens* to conclude that the aspects which distinguished over the prior art were the essential features of the claims.⁵⁶ The district court's decision in *Cyrix* was affirmed without opinion by the Federal Circuit.⁵⁷ The *Cyrix* decision was subsequently relied on by the district court in the *LGE* case.⁵⁸

III. DISTRICT COURT DECISIONS IN THE *LGE* CASE

The *Quanta v. LGE* saga emanates from two decisions in an action in the Northern District of California involving LG Electronics as plaintiff against numerous defendants ("*LGE* decisions").⁵⁹ The *LGE* decisions followed *Univis Lens* and *Cyrix* to conclude that system claims were exhausted due to the licensed sale of components embodying the essential features of the system claims.⁶⁰ The circumstances present in the *LGE* decisions were substantially identical to those

⁵⁴ *Id.* at 531. Intel argued unsuccessfully that the combination claims were directed to patentably distinct features in the external memory. *Id.* at 531. The court disposed of Intel's contention by concluding that "Intel's interpretation of claims 2 and 6, however, is not credible. It is inconsistent with the manner in which Intel is interpreting claim 1 now, and the way in which Intel has interpreted claims 2 and 6 in the past." *Id.* The court's conclusion was based on positions Intel had taken during prosecution and in licensing negotiations. *Id.* at 530–31. The district court further stated regarding Intel's contention:

Intel's assertion that claims 2 and 6 require the step of actually storing page table entries and segment descriptors in external memory and until that process is performed, the limitations of claims 2 and 6 are not met, is wrong as a matter of law. Intel is trying to read into device claims 2 and 6 a *method* of operating the device. This is improper because it is mixing two different classes of invention—a product and a process—in the same claim. . . .

Even if Intel's interpretation of claims 2 and 6 were the correct one, the invention of claim 1 that Intel asserts is embodied within Cyrix's microprocessors still would have no use unless the microprocessors were combined with external memory holding page table entries and segment descriptors.

Id. at 537.

⁵⁵ *Id.* at 538 ("Where, as here, the rights in a claim for a combination are exhausted by the sale of a component of the combination [claim 1 microprocessor], the patentee cannot escape exhaustion by specifying that the combined component [external memory] be performing a specific function when that function is an inherent capability of that component." (alteration in original)).

⁵⁶ *Id.* at 540.

⁵⁷ *Cyrix Corp. v. Intel Corp.*, 42 F.3d 1411 (Fed. Cir. 1994).

⁵⁸ *See* *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d 1589, 1598 (N.D. Cal. 2002), *reaff'd, summary judgment granted in part*, 248 F. Supp. 2d 912 (N.D. Cal. 2003), *aff'd in part, rev'd in part, vacated in part and remanded sub nom.* *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

⁵⁹ *Id.* at 1589, *aff'd*, 248 F. Supp. 2d 912 (N.D. Cal. 2003).

⁶⁰ *LG Elecs.*, 248 F. Supp. at 918 (holding that method claims are not exhausted); *Id.* at 916, *aff'g* 65 U.S.P.Q.2d 1589, 1598 (holding that apparatus claims are exhausted) (collectively referred to herein as "*LGE* decisions").

found in both *Univis Lens* and *Cyrrix*.⁶¹ The lens blanks in *Univis Lens* had no noninfringing use other than to be finished and then sold;⁶² in *Cyrrix*, the microprocessors had no “commercially viable” noninfringing use other than to be coupled to external memory.⁶³ In *LGE*, microprocessors and chipsets were made by Intel under license and purchased by system manufacturers.⁶⁴ The only use for the licensed microprocessors and chipsets was in a computer system covered by the asserted system claims.⁶⁵

Both *Univis Lens* and *Cyrrix* involved a patentee licensing to third parties to make and sell a product which included essential features of a patent claim.⁶⁶ The district court in the *LGE* case interpreted *Univis Lens* and *Cyrrix* to preclude a patentee from collecting an additional royalty from any buyer of the *partially* completed product for the right to assemble a combination which required essential features purchased in the component:

[T]he holding and reasoning of *Cyrrix* is persuasive authority for the proposition that the sale or license of an essential element of a patented device may exhaust the patentee’s statutory right to exclude others from making, selling or using that device.

....

... LGE argues that the patent exhaustion doctrine applies only to the sale of a patented device and, because the Intel microprocessor does not, on its own, embody any of the claims of the five patents at issue here, LGE’s rights under those patents are not exhausted. LGE contends that *Univis Lens* does not stand for a contrary position because *Univis Lens* did not deal with the patent exhaustion doctrine at all. Rather, *Univis Lens* applied the related but distinct doctrine of implied license. . . .

... [H]owever, the *Univis* Court relied heavily on precedent articulating the patent exhaustion doctrine.⁶⁷

Consistent with *Univis Lens* and *Cyrrix*, the district court in the *LGE* decisions determined that the components made by Intel under license from LGE had no use other than to be used in an allegedly infringing manner.⁶⁸ LGE’s argument that a

⁶¹ United States v. Univis Lens Co., 316 U.S. 241, 258–59 (1942); *Cyrrix*, 846 F. Supp. at 531.

⁶² *Univis Lens*, 316 U.S. at 250–52.

⁶³ *Cyrrix*, 846 F. Supp. at 540.

⁶⁴ LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1368 (Fed. Cir. 2006), *cert. granted sub nom.* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 28 (2007).

⁶⁵ *Id.*

⁶⁶ *Univis Lens*, 316 U.S. at 249; *Cyrrix*, 846 F. Supp. at 540.

⁶⁷ LG Elecs., Inc. v. Asustek Computer, Inc., 65 U.S.P.Q.2d 1589, 1595–96 (N.D. Cal. 2002), *reaff’d, summary judgment granted in part*, 248 F. Supp. 2d 912 (N.D. Cal. 2003), *aff’d in part, rev’d in part, vacated in part and remanded sub nom.* LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom.* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 28 (2007).

⁶⁸ *Id.* at 1600 (“The limited utility of the microprocessors and chipsets as replacement parts is not, alone, a sufficient non-infringing use. Defendants are manufacturers of computers. It would

patent is exhausted only when a licensee sells a product which embodies all of the elements of at least one claim in a patent was properly rejected.⁶⁹ LGE's argument was a non-starter. The Supreme Court in *Univis Lens* had firmly established that an incomplete or partially completed article which embodied the essential features of the patent gave rise to the exhaustion doctrine.⁷⁰

In *Univis Lens* itself, the lens blanks *did not* embody all of the elements of at least one claim of the patents at issue.⁷¹ But the Supreme Court nonetheless found the patent exhaustion doctrine applicable:

Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article. To that extent, he has parted with his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures in him.⁷²

If the Court had not applied the patent exhaustion doctrine to the lens blanks on the basis that the lens blanks did not embody each element of at least one claim in the patents at issue, the Univis Company could have collected multiple royalties from every licensee in the lens finishing chain—which is no different than what LGE seeks to do in *Quanta v. LGE*—and which Justice Breyer hopes to avoid when he installs his new pedals on his bicycle. However, it is abundantly clear that an article need not include all claim features to fall within the patent exhaustion doctrine. There is no dispute on this point (that patent exhaustion applies to an unpatented component which would otherwise contributorily infringe) in the arguments submitted to the

not be wise from a business standpoint for them to purchase computer components solely for resale . . ."); see also *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1342–43 (Fed. Cir. 1999).

⁶⁹ *LG Elecs.*, 65 U.S.P.Q.2d at 1597.

⁷⁰ See *Univis Lens*, 316 U.S. at 251. Also, the district court in *Cyrrix*, citing *Univis Lens*, explained that “the patent exhaustion doctrine is so strong that it applies even to an incomplete product that has no substantial use other than to be manufactured into a completed patented and allegedly infringing article.” *Cyrrix*, 846 F. Supp. at 540. The Federal Circuit has also recognized that an incomplete or partially completed article can give rise to the exhaustion doctrine. See *Anton/Bauer, Inc. v. PAG, Ltd.*, 329 F.3d 1343, 1351 (Fed. Cir. 2003). “The sale of the unpatented female plate by Anton/Bauer is a complete transfer of the ownership of the plate. In effect, the sale extinguishes Anton/Bauer’s right to control the use of the plate, because the plate can only be used in the patented combination and the combination must be completed by the purchaser.” *Id.* In *Anton/Bauer*, the Federal Circuit quoted the language from *Univis Lens* regarding essential features to support its conclusion that exhaustion had occurred due to the sale of a component of a claimed combination. *Id.* “The ‘uncompleted article which, because it embodies essential features of his patented invention . . . Anton/Bauer places on the market one component of a patented combination that has no other use than to complete the patent combination with a second unpatented component.’” *Id.*

⁷¹ *Univis Lens*, 316 U.S. at 248–49 (finding that “the patent is not fully practiced until the finishing licensee has ground and polished the blank so that it will serve its purpose as a lens”).

⁷² *Id.* at 252.

Supreme Court in *Quanta v. LGE*.⁷³ This fact serves as a critical point of departure in that there cannot be any serious argument that the contributory infringement statute does not apply or that the standard for exhaustion is any different from the standard for contributory infringement, as discussed below.⁷⁴ *Univis Lens* requires only that the article contain the essential features of the claim for that claim to be exhausted.⁷⁵ Likewise, the contributory infringement statute requires that the article contain the essential features of the claim for the transfer to fall within the statute.⁷⁶ The meaning of “essential features” is the same in both contexts.

IV. LIMITATIONS ON THE PATENT EXHAUSTION DOCTRINE PRIOR TO THE FEDERAL CIRCUIT’S DECISION IN THE *LGE* CASE

It is well-established that an authorized transfer of an article embodying the invention must be “unconditional” to invoke the patent exhaustion doctrine. Prior to the Federal Circuit’s decision in the *LGE* case the law was clear that a patentee could withhold rights granted under the patent laws but could not impose any limitations on the sale of an article which were outside the bounds of the rights granted under the patent laws.⁷⁷ The Federal Circuit’s holding in the *LGE* case threatens to obliterate the boundary between permissible restrictions under the patent laws and impermissible conduct proscribed by the antitrust laws and the doctrine of patent misuse. A full discussion of the Federal Circuit’s mistakes in *LGE* is given below, as well as an analysis of the potential implications and inadvisability of a broad Supreme Court repudiation of the Federal Circuit. But first, some background material to aid in contextualizing the issues.

A. *The Patent Exhaustion Doctrine Does Not Negate a Lawful Express Restriction*

The key determinant as to whether a patent is exhausted is whether the patent owner has sold the patented good outright or whether lawful restrictions have been placed on the sale.⁷⁸ However, to effectively preclude operation of the exhaustion doctrine, conditions involving the sale of an article embodying a patented invention must be clear, explicit, and otherwise lawful.⁷⁹

⁷³ See Brief for Petitioners, *supra* note 2, at 33–35; Brief of Respondent, *supra* note 3, at 26–27 (emphasizing that *Univis Lens* holds that patent exhaustion applies to non-patented components).

⁷⁴ See discussion *infra* Section VII.

⁷⁵ *Univis Lens*, 316 U.S. at 249.

⁷⁶ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 213 (1980) (ruling that a product contributorily infringes a patent when it contains the essential features that the invention had over prior art).

⁷⁷ See generally *Univis Lens*, 316 U.S. 241; *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

⁷⁸ *Mitchell v. Hawley*, 83 U.S. 544, 548 (1872) (stating exhaustion occurs where the sale of the patented article “is absolute and without any conditions”); *accord Braun Med., Inc. v. Abbott Labs, Inc.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (“[A]n unconditional sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter.”).

⁷⁹ See *LG Elecs., Inc. v. Bizcom Elecs., Inc.* 453 F.3d 1364, 1369–70 (Fed. Cir. 2006) (stating that an express conditional sale precludes patent exhaustion), *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

The rationale for the patent exhaustion doctrine is that purchasers of patented goods who lack knowledge of any restrictions should be free to use the goods in an unlimited manner:

[T]he policy which best seems to justify the exhaustion principle is that since the exclusive patent right is a limited exception . . . the exercise of this right should be cut off after the first sale of the patented goods because the sale provides adequate financial reward to stimulate invention and, without the termination of the right, the patentee could independently control the goods indefinitely, thereby giving him absolute control over the product market and leaving subsequent purchasers, who might be subject to a patent infringement action, in a position of great uncertainty.

. . . The principle originated from the need to define the interest that a purchaser receives when purchasing patented goods, it being found that there are no accompanying implied restrictions⁸⁰

However, a patent owner has broad discretion within the confines of the antitrust laws and patent misuse doctrine to *expressly* restrict a patent license agreement. For example, the trial court in *Western Electric Co. v. General Talking Pictures Corp.*,⁸¹ an often-cited case dealing with license restrictions, held that royalties due for practice of combination patents were unaffected by the patent exhaustion doctrine where components were sold under a restricted license which was known by the purchaser to preclude unauthorized practice of combination patents:

[T]he mere fact of sale by the licensee, American Transformer Company, to the defendant did not deprive the plaintiffs of their rights to exclude the defendant from the fields of operation and distribution of the patented device which the plaintiffs have reserved, *according to the terms of the license granted to the American Transformer Company, to the defendant's actual knowledge.*⁸²

In response to an “exhaustion” argument, the trial court in *General Talking Pictures* held that the authorized sale of separately patented tubes did not permit the purchaser, who was aware of a use restriction, to use the tubes in a manner inconsistent with the relevant license.⁸³ *General Talking Pictures*, which was

⁸⁰ William A. Birdwell, *Exhaustion of Rights and Patent Licensing Market Restrictions*, 60 J. PAT. OFF. SOC'Y 203, 216, 229 (1978).

⁸¹ 16 F. Supp. 293 (S.D.N.Y. 1936), *aff'd*, 91 F.2d 922 (2d Cir. 1937), *aff'd*, 304 U.S. 175 (1938), *aff'd on reh'g*, 305 U.S. 124 (1938).

⁸² *Id.* at 300 (emphasis added).

⁸³ *Id.*; see also *Aro Mfg. Co. v. Convertible Top Replacement Co.* (“Aro II”), 377 U.S. 476, 483 (1964) (affirming *General Talking Pictures* and stating “it has often and clearly been held that unauthorized use, without more, constitutes infringement”). The Federal Circuit has also relied on *General Talking Pictures* as authority for a patentee’s right to impose a license restriction respecting the terms of sale of a patented article:

affirmed by the Supreme Court, makes clear that the doctrine of patent exhaustion applies only to *implied* restrictions on purchased goods.⁸⁴

An agreement respecting patent rights is a contract and must therefore be construed so as to give effect to the intent of the parties.⁸⁵ Thus, as the Federal Circuit made clear in its *Mallinckrodt* decision, an express restriction precludes exhaustion of the withheld right, assuming there is no antitrust violation or patent misuse, if the parties so intended:

Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law), private parties retain the freedom to contract concerning conditions of sale. As we have discussed, the district court cited the price-fixing and tying cases as reflecting what the court deemed to be the correct policy, viz., that no condition can be placed on the sale of patented goods, for any reason. However, this is not a price-fixing or tying case, and the per se antitrust and misuse violations found in the *Bauer* trilogy and *Motion Pictures Patents* are not here present. The appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.⁸⁶

Thus, a "lawful" and *express* restriction cannot be negated by the doctrine of patent exhaustion. This is true because an "unconditional" transfer, required for patent exhaustion, cannot exist where there is a lawful express restriction. The Federal Circuit recently reaffirmed this doctrine in the *Braun Medical, Inc. v. Abbott Laboratories, Inc.*⁸⁷ case:

[T]he district court held that no restriction whatsoever could be imposed under the patent law, whether or not the restriction was enforceable under some other law, and whether or not this was a first sale to a purchaser with notice. This ruling is incorrect, for if *Mallinckrodt's* restriction was a valid condition of the sale, then in accordance with *General Talking Pictures* it was not excluded from enforcement under the patent law.

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 701 (Fed. Cir. 1992) (citations omitted); see also *Munters Corp. v. Burgess Indus. Inc.*, 535 F.2d 210, 211 (2d Cir. 1976) (finding patentee successfully relied on *General Talking Pictures* to obtain reversal of grant of preliminary injunction to purchaser claiming right to use putatively licensed material).

⁸⁴ *General Talking Pictures*, 16 F. Supp. at 300; accord *Mallinckrodt*, 976 F.2d at 707–08; Birdwell, *supra* note 80, at 204 ("A close examination of the fundamental Adams decision reveals that it was directed only to implied restrictions on purchased goods."). Express restrictions in patent licenses are analogous to restrictive covenants in real property law—which are enforceable against a subsequent purchaser of restricted property if the purchaser had constructive notice of the restriction. See, e.g., *Gordon v. Village of Lawrence*, 443 N.Y.S.2d 415 (N.Y. App. Div. 1981), *aff'd*, 439 N.E.2d 398 (N.Y. 1982).

⁸⁵ *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874 (Fed. Cir. 1991).

⁸⁶ *Mallinckrodt*, 976 F.2d at 708 (citation omitted); see also Birdwell, *supra* note 80, at 214 ("[E]xpress restrictions on purchased goods are enforceable under patent law, except for certain restrictions found to be in restraint of trade.").

⁸⁷ 124 F.3d 1419 (Fed. Cir. 1997).

[A]n unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the "use" rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld. Such *express conditions, however, are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse*. Accordingly, conditions that violate some law or equitable consideration are unenforceable. On the other hand, violation of valid conditions entitles the patentee to a remedy for either patent infringement or breach of contract.⁸⁸

B. Prior to the Federal Circuit's LGE v. Bizcom Decision, Articles Transferred Under License Could Be Restricted but Exhaustion Could Not Be Disclaimed

The consternation by the Petitioners and the Solicitor General in *Quanta v. LGE* regarding the Federal Circuit's 1992 *Mallinckrodt* decision⁸⁹ is much ado about nothing. *Mallinckrodt* simply followed Supreme Court precedent to allow a single use restriction on very specific facts. *Mallinckrodt* was not a broad expansion of the patent exhaustion doctrine or repudiation of any Supreme Court precedent as Petitioners and the Government have argued.⁹⁰ The Federal Circuit indeed made a mistake, but it was in the application of *Mallinckrodt* to the facts of *LGE v. Bizcom*,⁹¹ not in *Mallinckrodt* itself.

Under the Federal Circuit's *Mallinckrodt* rule, an express restriction is enforceable under the patent law absent evidence of an antitrust violation or patent misuse, i.e., if such restriction is reasonably within the patent grant.⁹² A contractual exclusion of rights to combination or apparatus claims not embodied in the article sold is not a violation of antitrust law; it is simply specificity in licensing of particular patents. The same is true for patent claims which are separate and distinct from claims covering the article sold, and which are not otherwise licensed. Regarding misuse, the Federal Circuit has made clear that an exclusion of rights to combination claims, without more, is not a prohibited extension of the patent monopoly to unpatented items.⁹³ Moreover, it is not misuse to exercise control over the sale of a

⁸⁸ *Id.* at 1426 (citations omitted) (emphasis added).

⁸⁹ *Mallinckrodt*, 976 F.2d at 700.

⁹⁰ See Brief for Petitioners, *supra* note 2, at 30–31; Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 20–24.

⁹¹ *LG Elecs, Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

⁹² *Mallinckrodt*, 976 F.2d at 708.

⁹³ *E.g., Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1559 (Fed. Cir. 1983) (holding such restrictions are recognized to be enforceable, and thus not misuse).

nonstaple article useful only in making a patented combination.⁹⁴ It is therefore reasonably within the rights conferred by the patent grant to collect royalties for the sale of a contributorily infringing component.⁹⁵ Excluding rights to a combination claim where the component and combination are patentably separate and distinct is also not misuse.⁹⁶

Thus, computer system manufacturers do not obtain a right in system claims merely by purchase of a “licensed” component unless the component includes the essential features of the system claim.⁹⁷ There is no grant of any right in a system claim under such circumstances if the purchaser was aware of restrictions on the purchased item which required additional royalties to be paid for practice of the system claim, i.e., where a full royalty for practice of the system claim has not been received. Such restrictions will, pursuant to the *General Talking Pictures* line of cases, defeat any argument that authorized sales of components can exhaust system claims for which royalties have never accrued. However, where a royalty is recovered for an unpatented, otherwise contributorily infringing component, a full royalty for practice of the system or method claim has been recovered.⁹⁸ That is the situation in *Quanta v. LGE* and in Justice Breyer’s bicycle hypothetical. In *Quanta v. LGE* and in the bicycle hypo, a royalty was recovered for practice of the asserted system and method patents because the component included essential features of the claims of those patents. It is of no moment that other, entirely different, component patents were embodied in the chip components because those component patents were also licensed for sale by Intel, irrespective of contributory infringement and exhaustion issues regarding the asserted system and method patents.⁹⁹ However, other unrelated component, system or method patents were not implicated by Justice Breyer’s purchase of patented pedals. Adherence to the essential features dictate of *Univis Lens* avoids the wrong result in both scenarios.

⁹⁴ 35 U.S.C. § 271(d)(2) (2006). See also *Mercoid Corp. v. Minneapolis Honeywell Corp.*, 320 U.S. 680, 684 (1944). The court held it was misuse for the patent owner to license others to sell the nonstaple element of a combination for use in the patented invention. *Id.* But cf. 35 U.S.C. § 271(d)(2).

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent.

Id. The court’s holding in *Mercoid* was legislatively overruled by 35 U.S.C. § 271(d)(2), which states that granting a release from contributory infringement of a combination patent is not misuse. *Mercoid*, 320 U.S. at 684.

⁹⁵ See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 501–02 (1964); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

⁹⁶ See *Lifescan, Inc. v. Polymer Tech. Int’l Corp.*, 35 U.S.P.Q.2d 1225, 1238 (W.D. Wash. 1995) (“The court notes that in *Dawson* the patentee was permitted to limit competition in the sale of an *unpatented* [non]staple item, whereas here the strip itself is patented, thus making this an even stronger case in favor of a finding of no misuse.”) (emphasis in original); see also *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986) (stating misuse occurs where a restrictive license broadens the scope of the patent beyond what is covered by the claims and is anti-competitive), *cert. denied*, 477 U.S. 905 (1986).

⁹⁷ See *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

⁹⁸ See discussion *infra* Section VII. Section VII contains a discussion of 35 U.S.C. §§ 271 (c), (d) and the Supreme Court’s interpretation thereof in *Dawson Chem.*, 448 U.S. 176.

⁹⁹ See, e.g., discussion *infra* Section VIII.C.

Significantly, *Mallinckrodt* involved the legality of a single use restriction.¹⁰⁰ Whether the sale of a component exhausted a system or method claim was not at issue. There was no attempt to prevent the purchaser from using the article transferred under license for its intended purpose. Nor was there any attempt to unlawfully extend the patent monopoly. As the Federal Circuit correctly pointed out in *LGE v. Bizcom*, the royalty received by the patentee in *Mallinckrodt* was bargained for based on a single use of the patented article.¹⁰¹ If the article in *Mallinckrodt* had been an incomplete component embodying essential features of a claimed system or method without any other reasonable use, the exhaustion doctrine would have applied under *Univis Lens* irrespective of the royalty received for the component.¹⁰² This was the situation in *LGE*—the components had no use whatsoever except to be assembled in a patented system or used in a patented method using the particular essential features embodied in the components. A correct application of *Mallinckrodt* to the facts of *LGE v. Bizcom* would have come to the opposite conclusion reached by the Federal Circuit.

Moreover, in *Mallinckrodt* the asserted claim covered the device sold.¹⁰³ There was no misuse because there was no attempt to broaden the scope of the claim beyond the claim's actual coverage.¹⁰⁴ The only issue was whether a use restriction was allowable.¹⁰⁵ The use right is one of the rights granted to a patentee, thus it was not misuse to impose a restriction on the use of the article sold.¹⁰⁶ The restriction on use in *Mallinckrodt* was not an attempt to expand the scope of a patent claim to cover something not patented, which clearly is not within the rights conferred in the patent grant except as regards the statutory exclusions from the misuse doctrine present in the statutory contributory infringement standard of 35 U.S.C. §§ 271 (c) and (d). Nor would an exclusion of the right to practice a system or method claim directed to patentably distinct subject matter be misuse because the patentee is entitled to a separate royalty for the system or method claim. However, an exclusion of the right to complete a system or practice a method not involving patentably distinct subject matter would constitute impermissible broadening of patent scope, and thus misuse.

Notably, *Cyrrix* held that system claims were exhausted because they were not patentably distinctive from a claim covering a component sold under license¹⁰⁷—and notwithstanding an attempt by the patentee to disclaim exhaustion.¹⁰⁸ *Cyrrix* was affirmed without opinion by the Federal Circuit a mere three years after the Federal

¹⁰⁰ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992).

¹⁰¹ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1369–70 (Fed. Cir. 2006), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007) (citing *Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *Mallinckrodt*, 976 F.2d at 708).

¹⁰² *But see* James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. PAT & TRADEMARK OFF. SOC'Y 550, 554 (1993) (criticizing the *Mallinckrodt* decision as turning implied license, exhaustion and antitrust into a “confusing melange”).

¹⁰³ *See Mallinckrodt*, 976 F.2d at 702.

¹⁰⁴ *See Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001–02 (Fed. Cir. 1986) (discussing the concept of patent misuse).

¹⁰⁵ *Mallinckrodt*, 976 F.2d at 701–03.

¹⁰⁶ *Id.* at 701, 709; *Braun Med.*, 124 F.3d at 1426.

¹⁰⁷ *Cyrrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 534 (E.D. Tex 1994), *aff'd without opinion*, 42 F.3d 1411 (Fed. Cir. 1994).

¹⁰⁸ *Id.* at 538–39.

Circuit decision in *Mallinckrodt*.¹⁰⁹ *Cyrrix* has never been seen as inconsistent with *Mallinckrodt* and the Federal Circuit's affirmance in *Cyrrix* clearly shows that the Petitioners in *Quanta v. LGE* are wrong in their assertion that *Mallinckrodt* allowed a patentee to restrict a sale without limitation.¹¹⁰

Even though exhaustion cannot be disclaimed, i.e., where an authorized sale of an article embodying the claimed invention has occurred, an exclusion of rights to system or method claims is effective if there is no unlawful extension of the patent monopoly.¹¹¹ Thus, the authorized sale of a component does not exhaust a system or method claim unless a royalty for the system or method was recovered via the sale of the component. Consistent with *Univis Lens* and its progeny, where the component embodies the invention of the system or method, exhaustion should be conclusively established, notwithstanding any attempted disclaimer.¹¹²

Contrary to exhortations by those who urge casting aside *Mallinckrodt*, including the Petitioners, Solicitor General and amici in support of Petitioners in *Quanta v. LGE*,¹¹³ *Mallinckrodt* was not proper sanction for the Federal Circuit's *LGE v. Bizcom* holding. *Mallinckrodt* simply stated that a patentee cannot extend the patent monopoly "beyond the patent grant" by contract or otherwise.¹¹⁴ Any restrictions applied to an article covered by a patent must of course be based on the existence of patent rights. If no patent rights exist, the statute does not allow restrictions, express or otherwise. The parties and amici in *Quanta v. LGE* fail to recognize this requirement. Since the articles sold under license by Intel in *Quanta v. LGE* were not covered by any unexhausted patent rights, a restriction could not be placed on those articles under the patent statute. Under *Univis Lens*, patent rights are exhausted if the article sold includes the "essential features" of a patent claim.¹¹⁵ Thus, since the essential features of all of LGE's asserted patent claims were admittedly present in the articles sold, exhaustion occurred.¹¹⁶ Attempts at

¹⁰⁹ *Cyrrix Corp.*, 42 F.3d at 1411.

¹¹⁰ *Id.*

¹¹¹ Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 33 (2001) ("Because the exhaustion doctrine is based in patent policy, however, and not the patentee's intent, it is harder to avoid by contract."); see also *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("The question is not whether the patentee at the time of sale intended to limit a purchaser's right to modify the product. . . . Each case turns on its facts, but a seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell or modify a patented product. . . ."), *cert. denied*, 523 U.S. 1022 (1998).

¹¹² Subsequent decisions interpreting *Univis Lens* have recognized that sale of a component embodying the essential features of an invention exhausts all claims to that invention notwithstanding any attempted disclaimer. See, e.g., *Cyrrix Corp.*, 846 F. Supp. at 538–39 (finding attempted disclaimers ineffective to negate exhaustion). As discussed above, the component and combination claims were found to be coextensive, and thus the patentee, which stipulated to exhaustion of the component claim, was deemed to have received its full reward for the patent by virtue of the authorized sale of the component. *Id.*

¹¹³ See, e.g., Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 23 ("The test adopted by the Federal Circuit in *Mallinckrodt* thus reflects a fundamental misunderstanding of the role and scope of the patent-exhaustion doctrine.")

¹¹⁴ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

¹¹⁵ *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

¹¹⁶ See discussion *infra* Section VIII.C. (explaining that separate component patents do not entitle LGE to additional royalties because those component patents were also licensed under the LGE/Intel agreement).

contractual disclaimer are ineffective in a true exhaustion situation because a contractual disclaimer cannot create rights that do not exist under statute. Thus the key is the definition of “essential features.” As explained below, the Supreme Court has already defined essential features—in *Univis Lens* and *Dawson Chemical Co. v. Rohm & Haas Co.*¹¹⁷—and *Mallinckrodt* was not inconsistent with either.

The Respondent and supporting amici in *Quanta v. LGE* argue for an unlimited freedom to extract royalties from every entity in the production, distribution and consumption channel for the manufacture, distribution or use of any product implicating a patent.¹¹⁸ These arguments take no heed of the nature of the particular claimed invention—focusing only on the restrictions placed on the disposition of components required to practice the claimed invention. Such arguments are inconsistent with the scope of the statutory patent grant as well as Supreme Court precedent, most notably *Univis Lens* and *Dawson*,¹¹⁹ and are also inconsistent with the Federal Circuit’s holding in *Mallinckrodt*.

V. THE FEDERAL CIRCUITS DECISION IN *LGE V. BIZCOM*

In *LGE v. Bizcom*, the Federal Circuit reversed the district court’s holding of exhaustion of apparatus claims, instead holding that LGE’s express disclaimer was effective against downstream customers who were given notice of the disclaimer:

The LGE-Intel license *expressly disclaims* granting a license allowing computer system manufacturers to combine Intel’s licensed parts with other non-Intel components. Moreover, this *contractual agreement required Intel to notify its customers* of the limited scope of the license, which it did. Although Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel’s customers were *expressly prohibited* from infringing LGE’s combination patents.¹²⁰

The district court’s holding that method claims were, *per se*, not exhausted was affirmed by the Federal Circuit in the *LGE* case.¹²¹

Prior to the Federal Circuit’s decision in *LGE v. Bizcom*, it seemed clear that sales could be restricted but exhaustion could not be disclaimed. The Federal Circuit did not hold in *Mallinckrodt* that exhaustion could be disclaimed. The Federal Circuit thus improperly applied its own precedent in *LGE v. Bizcom*. *Mallinckrodt* in fact held that a “lawful” express restriction could not be negated by patent exhaustion.¹²² However, the LGE disclaimer was not a lawful restriction. To be lawful, a restriction must be “reasonably within the patent grant,” i.e., not an

¹¹⁷ 448 U.S. 176, 213 (1980).

¹¹⁸ See Brief of Respondent, *supra* note 3, at 13–17.

¹¹⁹ See discussion *infra* Section VII.

¹²⁰ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (emphasis added), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

¹²¹ *Id.*; see also Osborne, *supra* note 40, at 678–86 (2004) (discussing the flawed analysis which led both the district court and Federal Circuit to conclude that method claims could not be exhausted on a *per se* basis).

¹²² *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

antitrust violation or patent misuse.¹²³ The disclaimer of *LGE v. Bizcom* was not lawful; it attempted to effect a second royalty even after an article embodying the asserted system and method claims had been transferred under license.

The Federal Circuit further erred in *LGE v. Bizcom* in relation to the issue of restrictions on “use” rights. The Federal Circuit cited *Braun* and *Mallinckrodt* for the proposition that the price negotiated in the prior cases reflected only the value of “use” rights conferred by the patentee.¹²⁴ This characterization was correct as to the prior cases, but was inapplicable to the facts of *LGE v. Bizcom*. *Braun* and *Mallinckrodt* were both field of use cases, i.e., the “use” rights granted under license had some non-zero value. In contrast, in *LGE v. Bizcom* the “use” rights were of absolutely no value; the licensed components obtained from Intel had no use whatsoever except in the claimed systems and methods.

Also, the Federal Circuit *LGE v. Bizcom* decision made no mention of the “no noninfringing uses” or “essential features” standards. And there was no mention of *Univis Lens*, which is controlling precedent of the Supreme Court. Nor was there any mention of *Cyrrix*, which followed *Univis Lens* and was affirmed by the Federal Circuit. The Federal Circuit’s superfluous treatment of exhaustion in *LGE v. Bizcom* defies logic.

The per se disclaimer holding of *LGE v. Bizcom* is clearly at odds with the foundation of the patent exhaustion doctrine. As discussed above, prior to *LGE v. Bizcom*, if a product embodying the invention was transferred in an authorized manner, there was exhaustion of claims directed to that invention, notwithstanding any attempted disclaimer. Exhaustion is a manifestation of the scope of the rights granted by statute and thus even express restrictions must be reasonably within the patent grant to avoid exhaustion. “Unless the condition violates some other law or policy (in the patent field, notable the misuse or antitrust law, e.g., *United States v. Univis Lens Co.*), private parties retain the freedom to contract concerning conditions of sale.”¹²⁵ “[E]xpress conditions, however, are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse.”¹²⁶ In *LGE v. Bizcom*, the Federal Circuit ignored its own statements in both *Mallinckrodt* and *Braun* that restrictions must be within the scope of the patent grant to avoid patent exhaustion, not to mention ignoring relevant Supreme Court precedent including *Univis Lens*.

The Federal Circuit also misconstrued exhaustion precedent in its consideration of the license versus sale issue in *LGE v. Bizcom*. The Federal Circuit stated “LGE granted Intel a license covering its entire portfolio of patents on computer systems and components. This transaction constitutes a sale for exhaustion purposes.”¹²⁷ As a result of the Federal Circuit’s statement and misreading of *Mallinckrodt*, the parties and amici have been unnecessarily focused on whether restrictions are placed on a manufacturing licensee as opposed to an end user. The Justices were likewise

¹²³ *Id.*

¹²⁴ *LG Elecs.*, 453 F.3d at 1369–70 (citing *Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed Cir. 1997); *Mallinckrodt*, 976 F.2d at 708).

¹²⁵ *Mallinckrodt*, 976 F.2d at 708.

¹²⁶ *Braun Med.*, 124 F.3d at 1426.

¹²⁷ *LG Elecs.*, 453 F.3d at 1370.

confused at the oral argument in *Quanta v. LGE*.¹²⁸ The attempted distinction between a license and a sale is a red herring in the patent exhaustion analysis. Under the *Univis Lens* essential features standard, it matters only “what” was transferred in an authorized manner, not to “whom” it was transferred by or to.

There can be no serious argument that the statutory scope of patent rights is capable of expansion by private contract. If a licensed component cannot be used except in an otherwise infringing system or method, the system or method claim is exhausted under the *Univis Lens* essential features standard and an attempt to collect an additional royalty constitutes patent misuse under, e.g., *Univis Lens* and *Mallinckrodt*. Any attempted disclaimer is ineffective as an illegal expansion of the patent grant.

The patent exhaustion doctrine is completely vitiated unless the Federal Circuit’s *LGE v. Bizcom* decision is reversed. If left standing, the decision is sanction for component suppliers to collect royalties from every integrator or user in the chain of commerce notwithstanding that the patentee has received a full reward for system or method patents whose essential features have already been transferred in an authorized manner. The patent exhaustion doctrine has always prevented recovery of multiple royalties for the same invention. If the decision is allowed to stand, patent misuse, i.e., improper expansion of the patent grant, will have been sanctioned by the Supreme Court.

VI. THE SUPREME COURT SHOULD REVERSE IN *QUANTA V. LGE* UNDER ITS OWN EXHAUSTION PRECEDENT

Under the Supreme Court’s exhaustion precedent, the authorized transfer of a component embodying essential features of a system or method claim precludes a further royalty for practice of the system or method claim.¹²⁹ In *Univis Lens*, the licensed lens blank component embodied essential features of a particular lens.¹³⁰ The same component was also claimed subject matter of the asserted patents.¹³¹ The patentably distinctive aspects of the asserted claims were thus contained within the licensed component.¹³²

As discussed in detail above,¹³³ the district court in *Cyrrix*, relying on *Univis Lens*, held that the component and system claims were patentably coextensive because they all included the essential features of the invention as elements.¹³⁴ The

¹²⁸ Transcript of Oral Argument, *supra* note 19, at 13. For example, Justice Stevens commented, “I have to confess I was puzzled by the court of appeals’ statement that the granting of the license constituted a sale for exhaustion purposes” *Id.*

¹²⁹ *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

¹³⁰ *Id.* at 247.

¹³¹ *Id.* at 249.

¹³² *Id.* at 254.

¹³³ See discussion *supra* Section II.

¹³⁴ *Cyrrix Corp. v. Intel, Corp.*, 846 F. Supp. 552, 533–34 (E.D. Tex. 1994), *aff’d without opinion*, 42 F.3d 1411 (Fed. Cir. 1994). The claimed microprocessor component embodied essential features of a memory management system which included on-chip paging circuitry and the capability to switch between segmentation alone or segmentation in combination with paging. *Id.* at 534.

The Intel 80286 microprocessor had on-chip segmentation circuitry and required external memory to be operable. The advance of the ‘338 Patent over the memory

court in *Cyrrix* explicitly characterized as essential features what was stated as distinguishing over prior art, i.e., patentably distinctive features.¹³⁵ The patentably distinctive features were inherently embodied in the microprocessor.¹³⁶ The addition of memory was not an essential feature because it was not used to distinguish over the prior art.¹³⁷ The usage in *Cyrrix* was consistent with common usage of the “essential features” terminology in various areas of patent law, including exhaustion, contributory infringement¹³⁸ and double patenting.

The “essential feature” terminology has long been used in the patent field to refer to a patentably distinct feature:

It is settled law that a party might be entitled to a patent for a combination [because of the cooperation of the elements contained therein], and at the same time be entitled to a separate patent for one of the elements of the combination. In such a case, the question to be determined is whether two or more different inventive concepts are involved. If the claims are so related that the *separately claimed element constitutes the essential distinguishing feature* of the combination as claimed, different concepts are not involved, the *inventions are not distinct*, and double patenting will be found. Conversely, where the element does not constitute the sole distinguishing novelty in the combination the inventions are distinct and double patenting will not be found.¹³⁹

This definition reflects the common usage of the “essential features” terminology at the time of the Supreme Court’s *Univis Lens* decision. For example, *In re Coleman*,¹⁴⁰ a United States Court of Customs and Patent Appeals case from 1951, stated with respect to essential features “[i]f the claims are so related that the

management system used on the 80286 microprocessor was the addition of on-chip paging circuitry . . . and the ability to choose between the prior art segmentation alone and the combination of segmentation plus paging are essential features of claims 1 [component], 2 [combination], and 6 [combination] of the '338 Patent.

Id.

¹³⁵ *Id.*

¹³⁶ *Id.* at 538.

¹³⁷ *See id.* at 534.

¹³⁸ *See* discussion *infra* Section VII.

¹³⁹ *In re Horneman*, 92 U.S.P.Q. 316, 319 (C.C.P.A. 1952) (second and third emphasis added) (citations omitted); *see also In re Carlton*, 77 F.2d 363, 365 (C.C.P.A. 1935) (“[T]he mere fact that appellant included in his patented combination the element or composition of matter here involved, does not preclude him from receiving a patent for the composition of matter defined by the appealed claims.”); *In re Ferenci*, 83 F.2d 279, 283 (C.C.P.A. 1936) (“Under some circumstances an element may be patentable per se, if new, and also form a part of a patentable combination with other elements, whether this element is new or old, and yet the two inventions may be distinct and not entitled to protection in the same patent.”); *In re Hadsel*, 173 F.2d 1010 (C.C.P.A. 1949); *Palmer Tire Co. v. Lozier*, 90 F. 732, 744 (6th Cir. 1898) (“One cannot extract an essential element of his invention from a former patent, without which the former patent would not have been granted, and make it the subject of a subsequent patent”); *In re Hawkins*, 57 F.2d 367 (C.C.P.A. 1932); *In re Creveling*, 46 App. D.C. 536 (D.C. Cir. 1917).

¹⁴⁰ 189 F.2d 976 (C.C.P.A. 1951) (the Court of Customs and Patent Appeals was the predecessor of the Federal Circuit).

separately claimed element constitutes the *essential distinguishing feature* of the combination as claimed, different concepts are not involved, the inventions are not distinct, and double patenting will be found.”¹⁴¹ *In re Coleman* in turn relied on *Palmer Tire Co. v. Lozier*,¹⁴² a Sixth Circuit decision from 1898, which was replete with essential features language and even touched on the notion of noninfringing use and exhaustion:

One cannot extract an *essential element* of his claimed invention from a former patent, without which the former patent would not have been granted, and make it the subject of a subsequent patent [I]f the second patent is for a *distinct and separate invention*, or to put the matter another way, has not been made integral with another invention already patented, so as to be *fairly necessary to its use*, it should be sustained [T]he *essential feature of the invention was the devising of the new fabric* . . . and making it a constituent part of his “bicycle and other tubing.” Indeed, *the tubing would not have been patentable at all without it*, for it would have been nothing more . . . than had already been patented.¹⁴³

Palmer Tire was a real life manifestation of Justice Breyer’s bicycle hypothetical. In *Palmer Tire*, the patentably distinctive feature was a fabric-reinforced bicycle tube.¹⁴⁴ In Justice Breyer’s hypo, the patentably distinctive feature was the pedal. In both situations, a patent directed to the bicycle system was not patentably distinctive vis-à-vis the component.

Thus, the contemporaneous caselaw regarding the standard for patentable distinctiveness from the era preceding the *Univis Lens* decision informs the meaning intended by the Supreme Court when it used the “essential features” terminology.¹⁴⁵ It is abundantly clear that the term “essential features” as used by the Supreme Court in *Univis Lens* was intended to mean patentably distinctive features.

Apparatus claims are frequently written in either, or both, component and combination formats, but the mere choice of claim form does not impart any patentable significance to a claim. Claims must distinguish over the prior art to be patentable. The simple fact that a system which includes a component is patentable does not mean that the system is “separately” patentable vis-à-vis the component. In *Quanta v. LGE*, the component did not include patentably distinctive features of a separate, unlicensed patent. Exhaustion of the asserted system and method claims thus occurred due to the licensed sale of the component. Since the component appears to have included features of a separate component patent having no relation to the asserted patents, exhaustion would not have occurred but for the fact that the separate component patent was also licensed under the LGE/Intel agreement. This point was entirely overlooked both in the briefing and at oral argument in *Quanta v. LGE*.¹⁴⁶

¹⁴¹ *Id.* at 979 (emphasis added).

¹⁴² 90 F. 732 (6th Cir. 1898).

¹⁴³ *Id.* at 739–44 (emphasis added).

¹⁴⁴ *Id.* at 733.

¹⁴⁵ *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

¹⁴⁶ See discussion *infra* Section VIII.C.

There may be situations where limitation to a single royalty for a component which contains the essential feature of a patented system makes licensing difficult, but this reality should have no effect on the statutory scope of patent rights. Moreover, once licensors appreciate that they cannot recover multiple royalties throughout the production chain, they will take steps to insure that they either obtain a full royalty for components embodying system inventions or they will choose to write their claims in system format and license system integrators rather than component manufacturers. Of course, where components and systems embody different inventions and care is taken to exclude particular patents from licenses in the first instance, there will be no effect on licensing practice.

The Supreme Court's denial of certiorari in *Monsanto Co. v. McFarling*¹⁴⁷ illustrates that the Court understands the inapplicability of the patent exhaustion doctrine to articles not sold under license—i.e., unauthorized articles such as the subsequent-generation seeds at issue in the *Monsanto* case. The Court clearly focused on the “invention” as embodied in the authorized transfer of an article as key to its disposition.¹⁴⁸ The invention as embodied in the subsequent-generation seeds was not embodied in the original licensed seeds.¹⁴⁹ Thus the original sale worked no exhaustion with respect to subsequent-generation seeds and Monsanto's disclaimer of a license on replicated seeds was not an improper extension of the patent monopoly. The Court should apply the same critical analysis evident in its denial of certiorari in *Monsanto* to the issue in *Quanta v. LGE*—i.e., whether the inventions of the asserted system and method claims were embodied in the component transferred under license. It is undisputed that they were. *Monsanto* was very different—the restriction related to the invention as embodied in components (seeds) *different* from those sold under license. A separate bicycle/brake system patent covering Justice Breyer's bicycle likewise presents a situation very different from *Quanta v. LGE*. Justice Breyer's purchase of patented pedals does not entitle him to practice the separate bicycle/brake patent because different inventions *and* different components are involved. The facts of *Quanta v. LGE* thus compel a conclusion of exhaustion because the disclaimer would allow a second royalty for practice of the same invention embodied in the same component, which has always been precluded by the Supreme Court's exhaustion precedent.

A “reasonable noninfringing uses” analysis is also relevant, pursuant to *Univis Lens*, to determining the essential features of a patent claim, and thus, whether the claim is exhausted.¹⁵⁰ As stated in *Univis Lens* and subsequent caselaw, an article embodying the invention cannot be used without practicing the invention.¹⁵¹ Thus, a component which includes the essential features is, for all intents and purposes, the invention itself, and collection of a single royalty for that component is all that is allowed by law. That is, a component which includes the essential features of an invention clearly cannot be used without practicing the invention, i.e., has no reasonable noninfringing uses. If claims are patentably distinct from the article sold,

¹⁴⁷ 488 F.3d 973 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 871 (2008).

¹⁴⁸ *Id.* at 978.

¹⁴⁹ *Id.* at 977.

¹⁵⁰ *Univis Lens*, 316 U.S. at 250.

¹⁵¹ *Id.* at 249. *See* *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 460–61 (1938).

there is no exhaustion even if there are no reasonable noninfringing uses.¹⁵² This circumstance has made the exhaustion analysis seem unnecessarily amorphous. However, an analysis of patentable distinctiveness consistent with *Univis Lens* avoids this confusion.

Making a determination as to the patentably distinctive features as part of an exhaustion analysis requires at least some level of claim construction as well as an examination of the prosecution history and prior art. However, this is no more onerous than the claim construction already required under *Markman v. Westview Instruments, Inc.*¹⁵³ in every patent case. All patent infringement cases hinge on a determination of what is actually encompassed by a claim. There is no legitimate reason that an exhaustion analysis should be any less rigorous, particularly since exhaustion applies to the authorized sale of an article embodying a claimed invention. There is no way to determine whether an article embodies a claimed invention without determining what the claimed invention is. Unfortunately, some courts have glossed over the necessity of a rigorous analysis of claim scope and have instead viewed the exhaustion doctrine as a shorthand way to decide the extent of patent rights without performing a thorough patent analysis. The Federal Circuit's conclusion in *LGE v. Bizcom*—that method claims, per se, cannot be exhausted—is one such example.¹⁵⁴ At least one court, however, has rejected an exhaustion argument for failure to offer proof that the essential features were embodied in the component.¹⁵⁵

An essential-features analysis cannot be at odds with a *Mallinckrodt*-type determination¹⁵⁶ as to lawful restrictions on the sale of an article. However, there is no conflict between *Univis Lens* and *Mallinckrodt*. If a patent claim is not embodied in an article sold, exhaustion is not an issue and a *Mallinckrodt*-type analysis is inapposite. If a patent claim is embodied in an article sold, a *Mallinckrodt* analysis would conclude that it is not reasonably within the patent grant to collect double royalties on the same claimed invention, but may be acceptable to otherwise place a restriction on the sale, e.g., limiting to single use. In no event however, would a *Mallinckrodt* analysis allow recovery of two separate royalties for the same article.¹⁵⁷

¹⁵² *Stukenborg v. United States*, 372 F.2d 498, 504 (Ct. Cl. 1967); *accord* *Priebe & Sons Co. v. Hunt*, 188 F.2d 880, 885 (8th Cir. 1951); *Hunt v. Armour & Co.*, 185 F.2d 722, 729 (7th Cir. 1951); *Tieleman Food Equip., B.V. v. Stork Gamco, Inc.*, 56 F.3d 1373, 1375 (Fed. Cir. 1995); *Warner & Swasey Co. v. Held*, 256 F. Supp. 303, 311 (E.D. Wisc. 1966); *Dennison Mfg. Co. v. Ben Clements & Sons, Inc.*, 467 F. Supp. 391, 427–28 (S.D.N.Y. 1979).

¹⁵³ 517 U.S. 370 (1996) (holding claim construction is exclusively within the province of the court).

¹⁵⁴ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (emphasis added), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

¹⁵⁵ *Minebea Co. v. Papst*, 444 F. Supp. 2d 68, 168–70 (D.D.C. 2006) (claim construction required to demonstrate that essential features were present in article sold).

¹⁵⁶ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992) (citation omitted) (“Unless the condition violates some other law or policy in the patent field, notably the misuse or antitrust law, private parties retain the freedom to contract concerning conditions of sale.”).

¹⁵⁷ *Mallinckrodt* dealt with a “single use” restriction. *Id.* at 701. There is no basis for extrapolation of the *Mallinckrodt* holding to allow multiple royalties for the same article where the article embodies essential features of a patented system or method. Single use restrictions may be justifiable for, e.g., health and safety concerns. A blatant collection of multiple royalties is de facto not justifiable on any such basis.

The Supreme Court stated clearly in *Univis Lens* that the payment of a royalty for an article containing the essential features of a patented invention entitled the purchaser to freely use or dispose of the article in practicing the invention.¹⁵⁸ The Court explained that the article containing the essential feature must have no noninfringing uses to exhaust the patent claim and thus preclude collection of any further royalty.¹⁵⁹ Neither LGE, Quanta nor any of the amicus briefs in *Quanta v. LGE* addressed the distinction between “essential feature” and “noninfringing use”—apparently assuming that they are either the same or necessarily subsumed within the same inquiry. However, this cannot be the case under any consistent reading of 35 U.S.C. § 271,¹⁶⁰ *Univis Lens*, and lower court interpretations of *Univis Lens*. Moreover, the distinction between these two separate but distinct inquiries must be appreciated to properly apply the patent exhaustion doctrine. “Essential features” was not surplus language used by the Supreme Court to define the “noninfringing-uses” test—it was a predicate for determination as to whether the “noninfringing-uses” test was even appropriate in a given situation. Without the disposition of an essential feature of a patented invention there is no occasion to apply the exhaustion doctrine. The essential-feature analysis is performed with respect to the article sold. The noninfringing-uses analysis is properly performed with respect to the subsequent purported practice of the patented invention. Only if the answer to the essential-features inquiry is “yes” does the second inquiry even occur. On the facts of *Quanta v. LGE*, clearly the essential features of the asserted system and method patents were contained within the licensed component. Sale of the component by Intel would have been contributory infringement but for the license from LGE.¹⁶¹ As a matter of law, therefore, the essential features were in the chip component.¹⁶² LGE received a royalty for the component and the component could not be further used without necessarily infringing the asserted system and method claims.¹⁶³ Exhaustion thus occurred, irrespective of any restriction or attempt to disclaim its occurrence.

The critical fact in *Quanta v. LGE* is that the essential features of the claimed inventions were contained in the component sold under license.¹⁶⁴ LGE believed it was entitled to further royalties for practice of the system claims because the system claims read on more than the component.¹⁶⁵ This was the argument expressly refuted by the Supreme Court in *Univis Lens*.¹⁶⁶ The misperception explains why so many licensing entities have taken issue with the Supreme Court’s review of the Federal Circuit decision in the *Quanta v. LGE* case—they either do not recognize, or choose to ignore, that the authorized disposition of an article containing the essential features of the patented invention works an exhaustion of the entire claim as if the article contained every claimed element. Only when a system claim adds something

¹⁵⁸ United States v. Univis Lens Co., 316 U.S. 241, 251 (1942).

¹⁵⁹ *Id.* at 250–51.

¹⁶⁰ 35 U.S.C. §§ 271 (c), (d) (2006) (providing that recovery for contributory infringement shall not be misuse).

¹⁶¹ LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1368 (Fed. Cir. 2006), *cert. granted sub nom.* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 28 (2007).

¹⁶² See discussion *infra* Section VII.

¹⁶³ *LG Elecs., Inc.*, 453 F.3d at 1372.

¹⁶⁴ *Id.* at 1370.

¹⁶⁵ *Id.* at 1369.

¹⁶⁶ United States v. Univis Lens Co., 316 U.S. 241, 254 (1942).

of a patentably distinctive nature vis-à-vis the component alone can exhaustion of the system claim be avoided.¹⁶⁷ Otherwise, double royalties would be recovered for the “same” invention.

VII. THE SUPREME COURT SHOULD REVERSE IN *QUANTA V. LGE* UNDER
THE STATUTORY CONTRIBUTORY INFRINGEMENT STATUTE
AND THE COURT’S INTERPRETATION OF THAT STATUTE

The development of the statutory contributory infringement standard is inextricably tied to the doctrine of patent misuse and hence patent exhaustion. In fact, the contributory infringement statute and the Supreme Court’s interpretation of that statute are entirely dispositive of the issues in *Quanta v. LGE*. Moreover, this same precedent and the statute are fully consistent with the Supreme Court’s exhaustion precedent, as they must be since contributory infringement and patent exhaustion are opposite ends of the same principle in the *Quanta v. LGE* fact situation—one relates to the right to obtain a recovery, the other to preclusion of a further recovery once the initial recovery is obtained. The common element of both doctrines is the “essential features” standard.

The Supreme Court interpreted 35 U.S.C. §§ 271(c) and (d) in *Dawson*. The Court clearly stated in *Dawson* that a patentee may control the disposition of an unpatented “material” component of a patented process by an action for contributory infringement.¹⁶⁸ It is this “material” aspect of the contributory infringement statute which connects the doctrines of patent exhaustion and contributory infringement. In pertinent part, 35 U.S.C. § 271 states:

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, composition, or a material or apparatus for use in practicing a patented process, constituting *a material part of the invention*, knowing the same to

¹⁶⁷ See *Cyrix Corp. v. Intel Corp.* 846 F. Supp. 522, 540 (E.D. Tex 1994), *aff’d without opinion*, 42 F.3d 1411 (Fed. Cir. 1994) (citing *Univis Lens*); Osborne, *supra* note 40, at 678–86 (stating there is likewise no rational basis for precluding method claims from the exhaustion doctrine unless the component and method claims are patentably distinct).

¹⁶⁸ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200 (1980). The Supreme Court’s statement in *Univis Lens* regarding contributory infringement requires that exhaustion apply to method claims if the article sold embodies the essential features of the method claims. *Univis Lens Co.*, 316 U.S. at 249. The Supreme Court assumed in *Univis Lens* that “sale of the blanks by an unlicensed manufacturer to an unlicensed finisher for their completion would constitute contributory infringement.” *Id.* The “no substantial noninfringing uses” requirement later incorporated into the statutory contributory infringement standard must be consistent with, if not the same as, the noninfringing uses analysis associated with exhaustion. See 35 U.S.C. § 271(c) (2006) (enacted via the Patent Act of 1952). Importantly, under the explicit language of the statute, a method claim can be contributorily infringed by the sale of a component useful only in practicing the claimed method. *Id.* There is no restriction to combination or system claims in the context of contributory infringement. Thus, to maintain consistency pursuant to *Univis Lens* and *Dawson* between the exhaustion and contributory infringement standards, there can be no exclusion of method claims from the exhaustion doctrine. See Osborne, *supra* note 40, at 678–86 (discussing the flawed analysis which led the Federal Circuit to hold in *LGE v. Bizcom* that method claims could not be exhausted on a per se basis).

be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.¹⁶⁹

In *Dawson*, the Court, in discussing its own jurisprudence regarding the development of the contributory infringement standard, made abundantly clear that the “material” component of the contributory infringement statute is a patentably distinctive component and was expressly defined as such to overrule the Supreme Court’s *Mercoïd Corp. v. Minneapolis Honeywell Corp.*¹⁷⁰ decision:

Mercoïd...made no exception for elements *essential to the inventive character of a patented combination*. . . .

. . . .

. . . [A]mong the historical precedents in this Court, only the *Leeds & Catlin* and *Mercoïd* cases bear significant factual similarity to the present controversy. Those cases involved questions of control over unpatented articles that were *essential to the patented inventions*, and that were unsuited for any commercial noninfringing use. In this case, we face similar questions in connection with a chemical, propanil, the herbicidal properties of which are *essential to the advance on prior art* disclosed by respondent’s patented process. . . . [P]ropanil is a nonstaple commodity which has no use except through practice of the patented method. . . .

. . . .

. . . [B]y enacting §§ 271(c) and (d), Congress granted to patent holders a statutory right to control nonstaple goods that are capable only of

¹⁶⁹ 35 U.S.C. §§ 271(c), (d) (2006) (emphasis added).

¹⁷⁰ 320 U.S. 680, 684 (1944).

infringing use in a patented invention, and that are *essential to that invention's advance over prior art*.

....

... But propanil is a nonstaple product, and its herbicidal property is *the heart of respondent's invention*.¹⁷¹

It is illuminating to compare the facts of *Quanta v. LGE* and *Dawson* with those of *Mallinckrodt*. A tying restriction would have been void in *Mallinckrodt* and exhaustion would have occurred.¹⁷² There was just such a tying restriction in *Quanta v. LGE*—purchasers of components from Intel were authorized to practice LGE's combination claims if they purchased all components from Intel.¹⁷³ This was classic tying.¹⁷⁴ *Dawson* compels the same conclusion. Rohm & Haas stipulated, and the Court relied on, the fact that purchasers of the unpatented chemical propanil from Rohm & Haas were free under principles of patent exhaustion to use the licensed propanil in the practice of the patented method.¹⁷⁵ Tying did not occur in *Dawson* because there was no attempt to extract any additional royalty for practice of the method claim once the royalty was paid via the purchase of propanil from Rohm & Haas.¹⁷⁶ An amicus brief in support of Rohm & Haas made this clear:

It is clear that Respondent is not receiving any consideration by way of private contract (the grant of a license) or from a second product ("tied-product"). It is equally clear that Respondent is receiving only one consideration, namely that from its sale of the non-staple propanil for use in the practice of the process of the Wilson Use Patent.

....

¹⁷¹ *Dawson Chem. Co.*, 448 U.S. at 198–99, 213, 214 (emphasis added).

¹⁷² *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law), private parties retain the freedom to contract concerning conditions of sale. As we have discussed, the district court cited the price-fixing and tying cases as reflecting what the court deemed to be the correct policy, *viz.*, that no condition can be placed on the sale of patented goods, for any reason. However, *this is not a price-fixing or tying case*, and the *per se* antitrust and misuse violations found in the *Bauer* trilogy and *Motion Picture Patents* are not here present. The appropriate criterion is whether *Mallinckrodt's* restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.

Id. (emphasis added) (citations omitted).

¹⁷³ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006), *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

¹⁷⁴ *See id.* at 1368. The fact that Intel was not in the business of supplying all necessary computer components to system integrators is irrelevant. Intel could have chosen to do so under its license from LGE. *Id.*

¹⁷⁵ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 186 (1980).

¹⁷⁶ *Id.* at 230.

The seller-patentee is also estopped by another doctrine of law, *the doctrine of exhaustion of patent rights with respect to the sale of a material part of the invention*. This is a second “estoppel,” the exaction of an “implied license” to insure that the buyer can use or sell the item purchased from the patent owner with immunity from the patent. . . .

. . . This exhaustion principle applies equally to the sale of an item which is material to practicing the patent, although the item may be unpatented itself. . . .

. . . .

Propanil, involved in the issue before the Court, is a non-staple chemical. In the case of a non-staple, the distinction between a “license” by operation of law, which is really an estoppel against suit by patentee, and explicit licensing, is of great significance. The “significance” is that *there is not even the potential for a “tie-in” in the former* (estoppel), although there may be such potential, depending upon the particular facts involved, in the latter (explicit licensing). *In the former, the seller does not foreclose the buyer—rather, it is the seller who is foreclosed (estopped) by operation of law.*

In conclusion, a “license” imposed or exacted by operation of law is not a license in the classical sense, i.e., one that by private contract creates consideration for the patent owner. It is an estoppel; *it cannot, absent more, be the basis for a “tie-in” in the case of a sale by the patent owner of a single, non-staple chemical product which is itself the “essence” of the patent.*¹⁷⁷

The Supreme Court clearly relied on the fact that tying was avoided in *Dawson* and no further royalty was sought by Rohm & Haas:

The parties agree that Rohm & Haas makes and sells propanil; that it has refused to license petitioners or any others to do the same; that it *has not granted express licenses either to retailers or to end users of the product*; and that *farmers who buy propanil from Rohm & Haas may use it, without fear of being sued for direct infringement, by virtue of an “implied license” they obtain when Rohm & Haas relinquishes its monopoly by selling the propanil*. See App. 35–39. See also *United States v. Univis Lens Co.*, (1942); cf. *Adams v. Burke*, 17 Wall. 453 (1873).¹⁷⁸

The “appendix” citation was directed to a stipulation by Rohm & Haas that “Rohm & Haas has never received any payment from its propanil customers who use

¹⁷⁷ Brief on Behalf of National Agricultural Chemicals Association as Amici Curiae Supporting Respondents at 73–79, *Dawson Chem. Co.*, 448 U.S. 176 (No. 79-669) (emphasis added).

¹⁷⁸ *Dawson Chem. Co.*, 448 U.S. at 186 (emphasis added).

the Wilson patent method other than the purchase price of the propanil.”¹⁷⁹ The Court would surely have reached the opposite result if two different royalties were sought for the propanil component and the practice of the method of using the propanil purchased from Rohm & Haas.¹⁸⁰ The Court copied the “implied license” terminology from the briefs, but clearly the Court was referring to exhaustion. The use of the “relinquishes its monopoly” terminology and the citation of *Univis Lens* and *Adams v. Burke* clearly shows that the parties and the Court recognized that a second recovery was precluded by patent exhaustion.¹⁸¹

Very recently, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*,¹⁸² the present Supreme Court reiterated the Court’s statements in *Dawson* regarding the requirement that contributory infringement requires that a component contain the patentably distinctive features of an invention.¹⁸³ The Court explained in *Illinois Tool Works* that it had held in *Mercoïd*, prior to codification of the contributory infringement standard in the Patent Act of 1952,¹⁸⁴ that there was “no difference in principle between cases involving elements essential to the *inventive character of the patent* and elements peripheral to it.”¹⁸⁵ However, with enactment of the 1952 statute, essential elements of a patented invention were afforded protection as within the scope of contributory infringement:

At least partly in response to our *Mercoïd* decisions, Congress included a provision in its codification that excluded some conduct, such as a tying arrangement involving the sale of a patented product tied to an “*essential*” or “*nonstaple*” product that has no use except as part of the patented product or method, from the scope of the patent misuse doctrine.¹⁸⁶

Thus, the Supreme Court has been consistently clear that a nonstaple article is an article containing the essential element of a patented invention. The essential element is the element which contains the “*inventive character of the patent.*”¹⁸⁷

As if the Supreme Court’s own decisions are not enough, the legislative history of the 1952 Patent Act leaves no doubt as to the meaning of “material” in 35 U.S.C. § 271(c). The House subcommittee report recommending passage of the bill leading to the 1952 Patent Act stated with regard to the proposed new contributory infringement provision: “One who makes a *special device constituting the heart of a patented machine* and supplies it to others with directions (specific or implied) to

¹⁷⁹ Petition for Writ of Certiorari at 39, *Dawson Chem. Co.*, 448 U.S. 176 (No. 79-669).

¹⁸⁰ The Petitioners in *Quanta v. LGE* argued that LGE had received a royalty from Intel for “products which would otherwise contributorily infringe” and was therefore precluded from collecting an additional royalty. Transcript of Oral Argument, *supra* note 19, at 13. However, the Petitioners did not show any appreciation of the patentable distinctiveness requirement of the contributory infringement statute and thus made no compelling argument as to why their conclusion should be adopted. The arguments that should have been made by the Petitioners are contained herein.

¹⁸¹ *Dawson Chem. Co.*, 448 U.S. at 186.

¹⁸² 547 U.S. 28 (2006).

¹⁸³ *Id.* at 40–41.

¹⁸⁴ 35 U.S.C. § 271(c) (2006).

¹⁸⁵ *Illinois Tool Works*, 547 U.S. at 40–41 (emphasis added).

¹⁸⁶ *Id.* at 41 (emphasis added).

¹⁸⁷ *Id.* at 40–41.

complete the machine is obviously appropriating the benefit of the patented invention.”¹⁸⁸

Giles S. Rich, the principal drafter of the statute, and later Judge of the Court of Customs and Patent Appeals and then the Federal Circuit, testified about the meaning of the phrase, “constituting a *material* part of the invention,”—“that *means part of the inventive contribution* that the patentee made, something new that did not exist before that came from him”¹⁸⁹

The consistent focus of Mr. Rich’s testimony was that the statute was directed, and limited, to patentably distinctive aspects of a patented combination or method:

If the part he is supplying is in substance the very thing which was invented, it seems to me personally, that he is an infringer, and he should not be let off on some little technicality that there is something minor in the whole apparatus that he is not supplying. . . .

. . . .

. . . [I]n each case you would have to look at the details and see what was invented, and in effect whether the alleged infringer is appropriating somebody else’s invention, or whether he is not. And the one thing we have definitely tried to do is to *exclude the people who sell common articles of commerce, staples, things that had nothing to do with the invention, nuts, bolts, cement, sand, nails, lumber, even things especially adapted*, as Mr. McCabe pointed out this morning, to fit things into other people’s apparatus, *unless they are a material part of the invention*.¹⁹⁰

Mr. Rich’s co-drafter, P.J. Federico, echoed in his authoritative and frequently-cited “Commentary” that the key to the statutory contributory infringement standard was that the unpatented component for which recovery was sanctioned had to be the patentably distinctive aspect: “One who makes a special device constituting *the heart of a patented machine* and supplies it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention.”¹⁹¹

Mr. Rich also explained the link to the misuse doctrine and that misuse is not present where the patentee gets its reward via the unpatented article:

¹⁸⁸ REPORT FROM THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES TO ACCOMPANY H.R. 7794, H.R. REP. NO. 82-1923 at 9 (2d Sess. 1952) [hereinafter REPORT] (emphasis added).

¹⁸⁹ *Patent Law Codification and Revision Hearings before Subcomm. No. 3 of the Comm. on the Judiciary H. of Rep., 82nd Cong. on H.R. 3760*, 82nd Cong. 154 (1951) [hereinafter *Hearings*] (statement of Giles S. Rich, testifying at the afternoon session on June 15, 1951) (emphasis added).

¹⁹⁰ *Id.* at 154, 157 (emphasis added).

¹⁹¹ P.J. Federico, *Commentary on the New Patent Act*, 35 U.S.C.A. 1, 50–51 (West 1954), reprinted in 75 J. PAT. & TRADEMARK OFF. SOC’Y 161, 212 (1993) (emphasis added).

So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and *getting your reward as a patentee*, all of these things *shall not be misuse . . .*¹⁹²

It would thus seem beyond doubt that an attempt to obtain a further royalty from a downstream integrator or end user remains proscribed conduct under the misuse doctrine and hence is precluded by the patent exhaustion doctrine.¹⁹³

It is worthwhile to note that the issue of “multiple royalties” was actually considered by Congress in enacting 35 U.S.C. § 271. A submission to the subcommittee succinctly stated the issue:

Is it the intention of section 231 [271], as a whole, that the liability of the contributory infringer, or shall we say the supplier, shall be liable as a joint tortfeasor and, hence, liable for the entire recovery which can be collected by the patentee under section 244? Some of us who have given thought to this question are of the opinion that the damages recoverable from a contributory infringer should be prorated or limited in some way in accordance with the character of his contribution, or possibly to the profit which he makes out of the parts or other facilities which he supplies to the direct infringer.¹⁹⁴

There was no further discussion of the “proration” issue and no changes in the proposed language were effected as a result. It must therefore be presumed that the statute does not mandate, or even allow, proration of royalties among contributory and direct infringers. In fact, the entire point of the statute is to enable a recovery which cannot be readily obtained from a direct infringer.¹⁹⁵ The statute manifestly provides for a complete, and single, recovery from the contributory infringer in such cases. To allow a recovery for an unpatented component and also for the use of that component in practicing the patent is outside the scope of sections 271(c) and (d) and is thus prohibited by the exhaustion doctrine as patent misuse.

The Supreme Court has actually spoken on this point, in *Aro Manufacturing Co. v. Convertible Top Replacement Co. (Aro II)*,¹⁹⁶ where it conclusively held that double royalties may not be recovered under the contributory infringement statute because

¹⁹² *Hearings, supra* note 189, at 173 (statement of Giles S. Rich, testifying at the afternoon session on June 15, 1951) (emphasis added).

¹⁹³ The Petitioners argued in *Quanta v. LGE* that section 271(c) precluded recovery of a second royalty for practice of a system or method patent. *See, e.g.*, Transcript of Oral Argument, *supra* note 19, at 14–15. However, the Petitioners failed to explain why section 271(c) was applicable to the facts by, e.g., reference to the legislative history and the *Dawson* decision. The explanation lacking from the oral argument is contained herein.

¹⁹⁴ *Hearings, supra* note 189, at 215 (statement by C.A. Soans, submitted as a letter and provided in the appendix of the hearing).

¹⁹⁵ *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 213 (1980); *Hearings, supra* note 189, at 154 (statement of Giles S. Rich, testifying at the afternoon session on June 15, 1951).

¹⁹⁶ 377 U.S. 476 (1964) (citations omitted).

the doctrine of patent exhaustion proscribes such double recovery.¹⁹⁷ The Court pointed out in *Aro II* that the contributory infringement statute was enacted to provide a remedy against contributory infringers where direct infringers could not be effectively reached:

To allow recovery of a royalty on Aro's sales after receipt of the equivalent of a royalty on Ford's sales, or to allow any recovery from Aro after receipt of full satisfaction from Ford, would not only disregard the statutory provision for recovery of "damages" only, but would be at war with virtually every policy consideration in this area of the law. It would enable the patentee to derive a profit not merely on unpatented *rather than* patented goods—an achievement proscribed by the *Motion Picture Patents* and *Mercoid* cases, *supra*—but on unpatented *and* patented goods. In thus doubling the number of rewards to which a patentee is entitled "under our patent law as written," it would seriously restrict the purchaser's long-established right to use and repair an article which he has legally purchased and for the use of which the patentee has been compensated. . . .

To achieve such a result through use of the contributory infringement doctrine would be especially ironic, in view of the purpose of that doctrine as set forth in case law and commentary and as presented to the Congress in urging passage of § 271 (c). *That purpose is* essentially, as was stated in the earlier versions of the bill that became § 271 (c), "*to provide for the protection of patent rights where enforcement against direct infringers is impracticable.*"¹⁹⁸

The Court's statements in *Aro II* were based on Testimony from Mr. Rich given at the Congressional hearings leading to passage of the 1952 Patent Act:

[T]here may be twenty or thirty percent of all the patents that are granted that cannot practically be enforced against direct infringers because of the nature of the invention and the way it is claimed in the patent.

Like this dental compound, it is simply not feasible to go around the country suing every dentist who buys a package of this stuff, and the practical way to give the patentee some way to enforce this patent right that he has been given is to let him go after the brains of the enterprise, the person who is really responsible and not the innocent end user.¹⁹⁹

The idea of proration of royalties is thus antithetical to the statute. If a remedy for direct infringement had been available, there would have never been a reason to enact the statute in the first place. Moreover, the citation of *Adams v. Burke* in *Aro*

¹⁹⁷ *Id.* at 510–13.

¹⁹⁸ *Id.* at 510–11 (emphasis added) (relying on *Adams v. Burke*, 84 U.S. 453 (1873)).

¹⁹⁹ *Hearings, supra* note 189, at 160 (statement of Giles S. Rich, testifying at the afternoon session on June 15, 1951).

*II*²⁰⁰ is particularly meaningful in that it shows that the Supreme Court viewed patent exhaustion as precluding double recovery in contributory infringement situations irrespective of whether the second recovery comes from the contributory or the direct infringer. The holding of *Aro II* thus conclusively determines the result in *Quanta v. LGE*—that LGE’s recovery for the component containing the essential features of the asserted system and method patents precludes a further royalty for subsequent use of the component in the claimed systems and methods. LGE was not compelled to license unpatented components. LGE could have excluded the asserted system and method patents from the license in the first instance.²⁰¹ But having chosen to collect royalties on the component pursuant to the rights granted by 35 U.S.C. §§ 271 (c) and (d), LGE is precluded from collecting a second royalty for the same invention.²⁰²

Opponents of the views expressed herein may point to the Supreme Court’s *Aro Manufacturing Co. v. Convertible Top Replacement Co. (Aro I)*²⁰³ decision as contrary to a patentable distinctive requirement in the patent exhaustion doctrine and contributory infringement standard.²⁰⁴ In *Aro I* the Court stated that there is no legally-recognized “heart” of a combination invention.²⁰⁵ However, this statement is inapposite to the exhaustion/contributory infringement question. This aspect of the *Aro I* decision dealt with whether replacement of a purportedly patentably distinctive element of a combination could be precluded as constituting impermissible reconstruction based on the criticality of the element to the combination. The Court concluded that it made no difference in the repair/reconstruction analysis whether the replaced element was the essential aspect of the claimed combination.²⁰⁶ Thus, this statement from *Aro I* is limited to the repair/reconstruction issue. Moreover, to the extent *Aro I* is inconsistent with the statutory contributory infringement standard, it must simply be ignored. *Aro I* relied on the *Mercoïd* decisions as support for its conclusion.²⁰⁷ *Mercoïd* was expressly overruled by the 1952 Patent Act.²⁰⁸ The statutory contributory infringement standard is an express statement that, in

²⁰⁰ *Aro II*, 377 U.S. at 510.

²⁰¹ See, e.g., *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006), cert. granted sub nom. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007). LGE released Intel from contributory infringement for sale of components containing essential features of the asserted system and method patents. Transcript of Oral Argument, *supra* note 19, at 11–12. The licensed components were “unpatented” in that the essential features of the asserted system and method patents were unpatented. See discussion *infra* Section VIII.C. Whether the component included other separately patented aspects is irrelevant because LGE’s “separate” component patents were also licensed under the LGE/Intel agreement. *Id.*

²⁰² LGE’s alleged “separate” component patents are of no moment in the exhaustion analysis respecting the asserted patents because those component patents were also licensed under the LGE/Intel license.

²⁰³ 365 U.S. 336 (1961).

²⁰⁴ *Id.* at 345.

²⁰⁵ *Id.* (“[T]here is no legally recognizable or protected ‘essential’ element, ‘gist’ or ‘heart’ of the invention in a combination patent.”) (citing the *Mercoïd* cases as support).

²⁰⁶ *Id.*

²⁰⁷ *Id.*

²⁰⁸ See 35 U.S.C. §§ 271(c), (d) (2006) (originally codified in 1952); *Aro Mfg. Co. v. Convertible Top Replacement Co. (Aro II)*, 377 U.S. 476, 492 (1964) (stating that § 271 reinstated the contributory infringement doctrine and overruled the “blanket invalidation” developed in the *Mercoïd* opinions).

the context of a component containing the patentably distinctive element of a patented combination or method, the “heart of the invention” does indeed give rise to an action for infringement. The Supreme Court confirmed in *Dawson* that the statement in *Aro I* was made in the context of repair/reconstruction and not contributory infringement:

Aro I does quote certain passages from the *Mercoïd* decisions standing for the proposition that even single elements constituting the heart of a patented combination are not within the scope of the patent grant. In context, these references to *Mercoïd* are not inconsonant with our view of § 271(d). In the course of its decision, the Court eschewed the suggestion that the legal distinction between “reconstruction” and “repair” should be affected by whether the element of the combination that has been replaced is an “essential” or “distinguishing” part of the invention. The Court reasoned that such a standard would “ascrib[e] to one element of the patented combination the status of patented invention in itself,” and it drew from the *Mercoïd* cases only to the extent that they described limitations on the scope of the patent grant. In a footnote, the Court carefully avoided reliance on the misuse aspect of those decisions.²⁰⁹

Dawson did not involve the repair/reconstruction issue. In contrast, as discussed above, the Court in *Dawson* conclusively held that the contributory infringement standard does indeed require a “heart of the invention” analysis.²¹⁰

Several briefs in support of the Respondent in *Quanta v. LGE* argue that 35 U.S.C. § 271(d) sanctions LGE’s collection of multiple royalties. For example, the brief of Technology Properties Limited stated: “Subsections (1) and (2) of section 271(d) provide that the licensed sale of contributorily infringing components under a two-tier licensing arrangement may not constitute grounds for denying relief for infringement of the system patents that are the subject of the second tier of such licensing programs.”²¹¹ Qualcomm’s brief stated: “Congress, too, has recognized that patent owners may receive revenue on a patent from entities that operate on multiple levels of a chain of production.”²¹²

These amici attempt to turn the meaning of section 271(d) on its head. Their arguments are blatantly wrong, entirely miss the point of the contributory infringement statute and carelessly ignore the legislative history. As discussed above, far from supporting these amici arguments, the statute by its very nature precludes collection of multiple royalties. The statute was specifically enacted by Congress as a remedy for patentees who had no practical recourse against direct infringers and to remove the taint of misuse from patentees who pursued contributory infringers. By definition, a “two-tier licensing arrangement” falls outside the scope of the statute. The legislative history is abundantly clear that

²⁰⁹ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 217 (1980).

²¹⁰ *See id.*

²¹¹ Brief for Technology Properties Limited as Amicus Curiae in Support of Respondent at 20–21, *Quanta Computer, Inc. v. LG Elecs., Inc.*, No. 06-937 (U.S. Dec. 10, 2007).

²¹² Brief for Qualcomm Inc. as Amicus Curiae in Support of Respondent at 28, *Quanta Computer, Inc.*, No. 06-937 (U.S. Dec. 10, 2007) (citation omitted).

section 271(d) merely removed the activities sanctioned under section 271(c) from the patent misuse doctrine—section 271(d) did not sanction multiple recoveries.²¹³ A colloquy between members of the House Judiciary Subcommittee and Giles Rich, principal drafter of the statute, leaves no doubt as to the purpose and meaning of Section 271(d):

Mr. Rich. . . . [I]t is necessary to make an exception to misuse to the extent that you revive contributory infringement in paragraph (c), and this whole section (d) is entirely dependent on (c). Where (d) refers to contributory infringement, it only refers to contributory infringement as defined in (c) and nothing more.

Mr. Crumpacker. In other words, *all it says is that bringing an action against someone who is guilty of contributory infringement is not a misuse of the patent.*

Mr. Rich. That is true. . . .

. . . .

Mr. Rich. . . . I never finished the statement I intended to make when I got up here, the history behind the reason for paragraph (d).

When the proposal was made to reenact contributory infringement or the equivalent of paragraph (c), a simple enactment, “this shall constitute contributory infringement,” I pointed out to the author that it wouldn’t work because contributory infringement was still with us as a legal doctrine. The only reason the plaintiff got no recovery was that he was guilty of misuse. . . .

. . . .

So attached to paragraph (c) we have a paragraph (d) that says that the recovery, *the enforcement against contributory infringers, the holding out of the patent against contributory infringers*, and granting them licenses, the use of it to protect the business and making money out of it, and *getting your reward as a patentee*, all of these things *shall not be misuse*²¹⁴

Giles Rich goes on to state “The last paragraph of this section [271(d)] provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent.”²¹⁵

²¹³ *Hearings, supra* note 189, at 169, 173 (statement of Giles S. Rich, testifying at the afternoon session on June 15, 1951) (emphasis added).

²¹⁴ *Id.* at 169, 173 (emphasis added).

²¹⁵ REPORT, *supra* note 188, at 9 (statement of Giles S. Rich).

An argument that section 271(d) sanctions tiered licensing also fails to recognize that the only basis for contributory infringement in the first place is that a material, i.e., patentably distinctive, component embodying the essential features of the combination or method has been transferred under license, and thus results in patent exhaustion. Proper interpretation of the statute compels the conclusion that LGE's attempt to collect a second royalty on a contributorily infringing component is an improper extension of the patent monopoly which is not excused nor sanctioned by section 271(d).

VIII. THE SUPREME COURT SHOULD REVERSE THE FEDERAL CIRCUIT IN
QUANTA V. LGE, BUT SHOULD NOT ADOPT EITHER OF THE POSITIONS
ESPOUSED BY PETITIONERS, RESPONDENT OR ANY AMICUS

*A. The Arguments Made to the Supreme Court in Quanta v. LGE Ignore the
Statutory Basis for the Patent Exhaustion Doctrine*

The Petitioners, Respondent and amici in *Quanta v. LGE* all misapprehend the Supreme Court's jurisprudence on patent exhaustion, and their briefs misstate all of the Federal Circuit and trial court holdings based on that jurisprudence. The Petitioners, and amici in support, argue that a patentee has no ability whatever to restrict a license involving patented subject matter.²¹⁶ The Respondent argues that a patentee has unfettered discretion to restrict a license involving patented subject matter.²¹⁷ They are both wrong. In fact, until the Federal Circuit's erroneous conclusion and holding in the *LGE v. Bizcom* case, the caselaw was remarkably consistent and solidly based on Supreme Court precedent, including *Univis Lens*.

The Supreme Court held in *Univis Lens* that the authorized transfer of a product embodying the "essential features" of a patent exhausted the patent rights implicating those features.²¹⁸ No decision of any trial or appellate court since *Univis Lens* was at odds with this holding prior to the Federal Circuit's pronouncement in *LGE v. Bizcom* that patent exhaustion could be contractually disclaimed. Petitioners attempt to cast the Federal Circuit's mistake as emanating from the *Mallinckrodt* decision. Petitioners misapprehend *Mallinckrodt*.

Mallinckrodt did no more than allow post-sale restrictions which were "reasonably within the patent grant."²¹⁹ There was no improper extension of the patent monopoly. *Mallinckrodt* simply recognized and upheld common field of use restrictions which have been part of patent licensing practice for hundreds of years in complete accord with Supreme Court precedent. However, the facts of *Quanta v. LGE* do not comport with those of *Mallinckrodt*. In *Mallinckrodt*, the field of use was "single use only," i.e., there was a "use" under the license, albeit restricted, and which

²¹⁶ Brief for Petitioners, *supra* note 2, at 12; Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 5.

²¹⁷ Brief of Respondent, *supra* note 3, at 15.

²¹⁸ *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

²¹⁹ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

reflected the price for the license.²²⁰ In *Quanta v. LGE*, the patentee's restrictions precluded any "use" whatsoever for the inventions of the asserted patents which were embodied in the components transferred under license unless further royalties were paid by the downstream integrators.²²¹

Under the facts of *Quanta v. LGE*, the only way the patentee LGE should have been entitled to further royalties is if some of the asserted patent claims covered combinations of the authorized component with some other unlicensed components and, critically, if such combination patents included "essential features" which were not the essential features of the unlicensed component claims. This is the analysis required by *Univis Lens*. The essential features analysis of *Univis Lens* was performed by the trial court in *Quanta v. LGE* and resulted in a correct conclusion (of exhaustion) as to the system claims.²²² However, because of flawed statements in several prior Federal Circuit decisions regarding method claims,²²³ the trial court held that the method claims, per se, could not be exhausted.²²⁴ The trial court erred because it did not properly examine the asserted claims for presence of essential features as required by *Univis Lens*.

Under a proper application of the essential features analysis required by *Univis Lens* to the asserted patents in the *Quanta v. LGE* case, the asserted system and method claims should have been held exhausted. The decision of the Federal Circuit in *LGE v. Bizcom* should thus be reversed as to all claims. None of the components at issue were covered by separate and distinctive patent claims which were not also licensed. Thus LGE should not be entitled to a separate royalty for a non-patentably distinctive combination or method claim (vis-à-vis an invention embodied in the component sold). However, the Supreme Court's holding should not go so far as to preclude a separate royalty for practice of an unlicensed and patentably distinctive claim. An analysis based on patentable distinctiveness avoids the problems inherent in examining the commercial reasonableness of multi-tiered licensing programs. The pertinent issue regarding patent exhaustion is whether the patentee has a right to do something pursuant to its statutory grant of exclusivity. The policy considerations put forth by the Respondent have no proper place in the exhaustion analysis.

Respondent's, and the Federal Circuit's, approach in the *LGE* case would entirely ignore the basis for the patent exhaustion doctrine under the Supreme Court's precedent and instead replace it with a contractual analysis requiring a determination of reasonableness of licensing rates based on prices of components. Notwithstanding the difficulty of performing any such analysis, commercial reasonableness is not what the patent exhaustion doctrine is about. Patent exhaustion is a limitation on statutory rights granted under the Constitution. Patent

²²⁰ *Id.* at 703.

²²¹ Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 4, at 3.

²²² *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d 1589, 1598 (N.D. Cal. 2002), *reaff'd, summary judgment granted in part*, 248 F. Supp. 2d 912 (N.D. Cal. 2003), *aff'd in part, rev'd in part, vacated in part and remanded sub nom.* *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

²²³ *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999); *Bandag, Inc. v. Al Bolser Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984). See also Osborne, *supra* note 40, at 683–85.

²²⁴ *LG Elecs.*, 65 U.S.P.Q.2d at 1597.

exhaustion should not be, and has never been, disclaimable any more than any other constitutionally-permissible limitation on rights can be disclaimed.²²⁵

Petitioners in *Quanta v. LGE*, on the other hand, argue that a patentee has no right under Supreme Court precedent to attach a post-sale restriction of any kind to patented goods.²²⁶ However, restricting the use of a patented product within statutory and constitutional bounds has never been and should not now be prohibited. Field of use restrictions that are reasonably within the scope of the patent grant have always been allowable exercises of the right of exclusivity granted to patentees under the Constitution.²²⁷

*B. The Supreme Court Should Limit Its Holding in
Quanta v. LGE to the Facts Before It*

LGE's disclaimer was an attempt to collect a double royalty after it had already been compensated for the asserted system and method patents via payment for the component embodying the inventions of the asserted patents. The Supreme Court should therefore reverse *LGE v. Bizcom* on its specific facts. However, there is no basis for extension of the patent exhaustion doctrine to other factual situations where there is no attempt to collect a double royalty for the same invention.

*1. The Doctrine of Patent Exhaustion Has Never Precluded Collection of Separate
Royalties for Practice of Separate and Distinct Patent Claims*

LGE's "separate patents" argument is superficially appealing, but is fundamentally flawed at its core. The argument fails to incorporate the essential features requirement of both *Univis Lens* and the contributory infringement statute.

Double royalties for the same invention are the hallmark of patent exhaustion. But neither *Univis Lens*, *Cyrix*, the district court in the *LGE* case, nor any other pertinent case has applied the doctrine of patent exhaustion to prevent a patentee from collecting royalties for practice of separate and distinct component and combination claims which are otherwise unlicensed. To the contrary, numerous cases recognize a patentee's right to separate royalties for separate and distinct claims, even if the component has no substantial use other than in a patented combination.

²²⁵ For example, individuals have a right of free speech under the Constitution. But government can restrict that speech if there is a compelling state interest, e.g., you can't falsely shout "fire" in a crowded theater. An offending theater-goer who causes a stampede resulting in injury to others will not be heard by any court to defend such action by "disclaiming" the government's prohibition on falsely shouting fire in the theater. Attempting to extend a patent beyond its legitimate scope by disclaiming patent exhaustion is constitutionally no different than attempting to disclaim liability for causing injury by falsely shouting fire in a theater.

²²⁶ Brief for Petitioners, *supra* note 2, at 33.

²²⁷ Field of use restrictions are analogous to hissing and booing in a theater. They are acceptable if they do not exceed the patent grant in the same way that hissing and booing in the theater is protected speech under the Constitution so long as it does not rise to the level of shouting "fire."

There was no attempt by the patentee in *Univis Lens* to collect “additional royalties” from a secondary licensee.²²⁸ As the Court observed “[t]he rewards of the corporate appellees for the exploitation of the patents and the patented lenses are derived wholly from the sales by the Lens Company of the blanks”²²⁹ The Court’s focus was on control of the “patented article” after the sale:

In the present case the entire consideration and compensation for both [lens blank and finishing process] is the purchase price paid by the finishing licensee to the Lens Company. *We have no question here of what other stipulations, for royalties or otherwise, might have been exacted as a part of the entire transaction, which do not seek to control the disposition of the patented article after the sale.*²³⁰

As long as a further royalty did not relate to the “patented article” for which a royalty had already been paid, such royalty would not have been precluded by the holding of *Univis Lens*. Separate, and distinctive, patent claims on the component and the combination would not have involved the same “patented article.”

Moreover, *Univis Lens* did not involve patentably distinctive component, system or method claims:

The record gives no account of the prior art and does not provide us with other material to which, if available, resort might appropriately be had in determining the nature of the alleged invention and the validity and scope of the patent claims founded upon it. In any event, we find it unnecessary, in the circumstances of this case, to decide whether, as the court below held, the patent claims can rightly be said to include the finishing of the blanks.

As appellees concede, the invention of only a single lens patent is utilized in making each blank and finishing it as a lens.²³¹

The lens company’s concession obviated the necessity of determining the scope of the claims, and thus whether the component, combination, and method claims were patentably distinctive. Without such a concession, it is clear that the Court could not have made its “essential features” determination without an examination of the prior art and determination of claim scope.

In *Cyrrix*, as discussed above,²³² the district court found the claims to be coextensive because they included the essential features of the invention as claimed elements.²³³ The court found that memory management features embodied in a

²²⁸ United States v. Univis Lens Co., Inc., 316 U.S. 241 (1942).

²²⁹ *Id.* at 245.

²³⁰ *Id.* at 249–50 (emphasis added).

²³¹ *Id.* at 248.

²³² See discussion *supra* Section II.

²³³ *Cyrrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 534 (E.D. Tex 1994) (“[T]he combination of segmentation plus paging are *essential features* of claims 1 [component], 2 [combination], and 6 [combination] of the ‘338 Patent.”) (emphasis added), *aff’d without opinion*, 42 F.3d 1411 (Fed. Cir. 1994).

microprocessor component claim were also essential features of a system claim directed to the microprocessor with external memory.²³⁴ The patentee was thus not entitled to a separate royalty for practice of the combination claim in addition to a royalty on the component.²³⁵ The *Cyrrix* decision thus turned on claim construction based on a review of the prosecution history and prior art; it says nothing about the ability of a patentee to collect royalties for practice of separate and distinct patent claims.

The *Cyrrix* decision has been misunderstood to stand for the proposition that every article transferred in an authorized and unconditional manner is thereafter free to be “used” in its “intended” manner.²³⁶ However, if an apparatus or method patent claim is patentably distinct from a separate claim covering the article sold, there is no basis for finding exhaustion of the apparatus or method claim, even if there is no use for the article except to be used in the infringing combination or method:

Each claim of a patent gives to the patentee an exclusive right. The mere fact that a person has an implied license to use a device that is covered by one set of claims does not give the person an implied license to use the device in combination with other devices in which the combination is covered by another set of claims.²³⁷

In fact, the Federal Circuit held in *Tieleman Food Equipment, B.V. v. Stork Gamco, Inc.*²³⁸ that separate and distinct component and combination patent rights are independently enforceable, even if the component has no substantial use other than in the patented combination:

The permissible repair principle does not apply, however, to the manufacture, use, or sale of a separately patented replacement part. Here, the probe is separately covered by claims 1–3, and the district court found that Stork’s sale of probes directly infringed these claims. . . . [T]he injunction is not overly broad to the extent that it enjoins Stork from

²³⁴ *Id.*

²³⁵ *See id.* at 539–40.

²³⁶ *See, e.g.,* Robert W. Morris, “Another Pound of Flesh”: *Is There a Conflict Between the Patent Exhaustion Doctrine and Licensing Agreements?*, 47 RUTGERS L. REV. 1557, 1595 (1995) (“Despite Intel’s stipulation to the contrary, the court held that *Cyrrix*’s computer chips infringed Intel’s claim 1, but found that the chips had no use unless they were combined with external memory as described by Intel’s claims 2 and 6.”).

²³⁷ *Stukenborg v. United States*, 372 F.2d 498, 504 (Ct. Cl. 1967); *accord* *Priebe & Sons Co. v. Hunt*, 188 F.2d 880, 885 (8th Cir. 1951) (“The patent grants conferred upon the patentee the right to a monopoly [sic] on each claim with the right to exact compensation in respect thereto.”), *cert. dismissed*, 342 U.S. 801 (1951); *Hunt v. Armour & Co.*, 185 F.2d 722, 729 (7th Cir. 1951).

Defendant argues that the sale of a patented article exhausts the monopoly in that article. . . .

Apparently it is defendant’s view that by purchasing fingers, which are covered by one group of claims in the patent, it automatically also obtained a license under the separate group of machine claims. However, each claim of a patent constitutes a separate grant of monopoly.

Id.

²³⁸ 56 F.3d 1373 (Fed. Cir. 1995).

making, using, or selling replacement probes that would infringe any of claims 1–3 of the '050 patent.²³⁹

In addition to the Federal Circuit's statement in *Tieleman* and the appellate decisions cited above, numerous earlier district court cases have recognized the independent enforceability of a claim covering a component or article which has no use other than to practice a separate and distinct system or method claim.²⁴⁰ Separate royalties are thus recoverable under the patent law for separate and distinct component and system claims, no matter what other use the component may or may not have. Neither *Univis Lens* nor *Cyrrix* held or implied the opposite. If the system claims in *Cyrrix* had been directed to subject matter patentably distinct from the microprocessor, for example a particular type of memory function whose essential features were not incorporated in the microprocessor, no one could reasonably argue that the memory claims were exhausted. The *Cyrrix* decision thus allowed the combination of the microprocessor with generic memory capable of performing the inherent functions recited in the microprocessor claim,²⁴¹ but would not extend the patent exhaustion doctrine to a separately patented invention directed to the memory itself.

Thus, separate and distinct inventions are entitled to separate royalties if those royalties have not been paid. But those are not the facts of *Quanta v. LGE*. LGE's

²³⁹ *Id.* at 1375 (citation omitted) (upholding injunction against sale of separately patented replacement parts even though patentee's rights in combination claims had been exhausted), *withdrawn from bound volume*, 62 F.3d 1430 (Fed. Cir. 1995). The Federal Circuit panel apparently felt there was nothing precedential about its opinion, i.e., that it was consistent with established precedent, which is precisely the point.

²⁴⁰ See *Warner & Swasey Co. v. Held*, 256 F. Supp. 303, 311 (E.D. Wisc. 1966).

To supply patented parts of a patented combination without authority from the patentee to purchasers of the combination is a direct infringement of the claims of the patent on the part and a contributory infringement of the claims of the patent on the combination, assuming that the requirements of 35 U.S.C. § 271(c) are otherwise met [e.g., nonstaple article]. The very fact that the patentee of a patented combination bothers to secure a patent upon a component part of that combination negates any inference that in selling the combination he contemplates or intends licensing such purchaser to replace the patented part from any source other than himself.

Id. (footnote and citations omitted); accord *Dennison Mfg. Co. v. Ben Clements & Sons, Inc.*, 467 F. Supp. 391, 427–28 (S.D.N.Y. 1979); see also *Nickel Co. v. Cal. Elec. Works*, 25 F. 475 (D. Cal. 1885).

The fact that they purchased from authorized agents this solution which enables them to nickel plate, does not, inferentially or otherwise, authorize them to use it in nickel plating without obtaining a license to use the invention covered by the other claims. They must also get a license to use the inventions covered by the other claims, or they cannot use this without being liable as infringers. Each claim is, in effect, a separate and distinct patent; and the right to use one patent does not carry with it the right to use the others without a further license. . . .

. . . .
 . . . The selling of the solution does not authorize, inferentially or otherwise, the use of it for the purpose of nickel plating, *whatever else it may be used for* [other uses irrelevant], without also procuring a license to nickel plate under the first and fourth claims, which are separate inventions.

Id. at 479 (emphasis added).

²⁴¹ *Cyrrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 538 (E.D. Tex. 1994), *aff'd without opinion*, 42 F.3d 1411 (Fed. Cir. 1994).

argument in *Quanta v. LGE* attempts to subvert this caselaw and use it to convince the Supreme Court to allow a double royalty for separate patents even though LGE has already received a royalty from Intel for each of its separate component patents as well as for each asserted system and method patent. LGE could not disclaim exhaustion of its system and method patents, but it could have specifically excluded particular patents from the scope of the license. If LGE had done so, Intel would have been subject to suit for contributory infringement for the asserted system and method patents and Intel's customers would have been subject to suit for direct infringement. When LGE chose to include the asserted system and method patents in its license to Intel, i.e., a release of liability for contributory infringement, LGE invoked 35 U.S.C. § 271(c).²⁴² Specifically excluding particular patents from a license produces the same result as Justice Breyer's bicycle example where a bicycle/brake system patent is not embodied in a licensed pedal. There is no right to practice the separate, unlicensed, patent. But a novel brake on Justice Breyer's bicycle is not the *Quanta v. LGE* factual scenario. LGE received a royalty for practice of the asserted system and method patents under sanction of the contributory infringement statute and is precluded from a further recovery by the exhaustion doctrine.

2. A System or Method Claim Is Exhausted by the Sale of a Component Only if the Component Embodies the Essential Features of the System or Method

The exhaustion doctrine has never been applied as broadly as urged by the Petitioners in *Quanta v. LGE*. Both *Univis Lens* and *Cyrrix* are typically cited for the proposition that a patentee is precluded from collecting a second royalty for practice of a patent claim directed to a combination if a royalty has been paid on any component which is "intended" to be used in the combination.²⁴³ This is the argument made by the Petitioners in *Quanta v. LGE*.²⁴⁴ However, neither case, nor any other, supports such a proposition. The instances of exhaustion found in both *Univis Lens* and *Cyrrix* were the result of the authorized sale of components embodying the invention of combination claims rather than just any component used in the combination. In both cases, the component was patentably indistinct from the claimed combination, or, in the case of *Univis Lens*, patentably indistinct from a claimed process or combination. This was the fact pattern presented in Justice Breyer's bicycle hypothetical and the same result occurs in the hypothetical—the bicycle/pedal system patent is exhausted. However, if a separate, unlicensed patent covers a bicycle/brake system, Justice Breyer must pay an additional royalty to keep the patent inspectors at bay.

In *Univis Lens*, the lens blank embodied essential features of a lens, which was used in subsequent practice of the asserted patents.²⁴⁵ In *Cyrrix*, the microprocessor embodied essential features of a memory management system which included on-chip paging circuitry and the capability to switch between segmentation alone or

²⁴² 35 U.S.C. § 271(c) (2006).

²⁴³ See Brief for Petitioners, *supra* note 2, at 1.

²⁴⁴ *Id.*

²⁴⁵ *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942).

segmentation in combination with paging.²⁴⁶ As discussed above, the addition of memory was not an essential feature because it was not used to distinguish over the prior art.²⁴⁷ Thus, *Univis Lens* and *Cyrrix* stand only for the proposition that the licensed sale of a component which embodies the patentably distinctive features of a claimed process or combination exhausts the patent monopoly with regard to such patent. A broader application of the cases is unwarranted.

If there is no attempt to collect double royalties or otherwise engage in prohibited post-sale control, the issue of patent exhaustion should never arise. If a patentee merely collects *separate* royalties for practice of separate and distinct patent claims, there is no collection of double royalties.²⁴⁸ However, if a component embodies the essential features of a system or method claim, the authorized sale of such component exhausts the system or method claim, whether or not the component is patented; and such exhaustion should occur regardless of the amount of the royalty paid for the component. Any other rule would create an unworkable economic valuation requirement and would be inconsistent with the basis for the exhaustion doctrine.

C. Justice Breyer's Bicycle Need Not Collide with the Elephant

A holding based on patentable distinctiveness and reflective of the actual scope of the LGE/Intel license will avoid a collision between Justice Breyer's bicycle and the ignored elephant of patent exhaustion.

Justice Breyer's desire to buy patented bicycle pedals and pedal away on any bike of his choosing without fear of "19 patent inspectors" chasing him,²⁴⁹ and irrespective of whether the pedal inventor also had a patent on the use of the pedals on a bicycle, is certainly a legitimate expectation and one the patent exhaustion doctrine was devised to fulfill.²⁵⁰ However, the hypothetical entirely failed to appreciate that the pedal inventor might have a different patent on a bicycle system including some other novel component unrelated to the pedals. Even though Justice Breyer's new pedal has no use except in a "bicycle system," it does not of necessity have to be used in the pedal inventor's separately patented bicycle system having a different novel component. Applying the patent exhaustion doctrine to exhaust unrelated system patents is no different than applying the doctrine to conclude that

²⁴⁶ *Cyrrix Corp.*, 846 F. Supp. at 526–27.

²⁴⁷ *Id.* at 534 ("[T]he ability to chose between the prior art segmentation alone and the combination of segmentation plus paging are *essential features* of claims 1 [component], 2 [combination], and 6 [combination] of the '338 Patent.") (emphasis added).

²⁴⁸ Several amicus briefs supporting the Respondent in *Quanta v. LGE* posited that licensors should be able to recover separate royalties for "separate" patents. See, e.g., Brief for Technology Properties Limited as Amicus Curiae in Support of Respondent, *supra* note 211, at 10–20. However, these arguments entirely fail to recognize the essential features requirement of the patent exhaustion and contributory infringement standards. On the facts of *LGE*, where there was no *unlicensed* component patent, this argument is meaningless. And even if aspects of the component were separately patented and unlicensed, exhaustion of the asserted system and method patents would not be avoided if the component included the essential features of a licensed system or method patent (which it admittedly did).

²⁴⁹ Transcript of Oral Argument, *supra* note 19, at 27.

²⁵⁰ *Adams v. Burke*, 84 U.S. 453, 456 (1873); *Univis Lens*, 316 U.S. at 250.

any component licensed under LGE patents can be used in any computer system. But only patents directed to computer systems having the component as their essential feature should be exhausted. Any other result produces portfolio licensing for the price of a minor component. The inventor of the bicycle pedal is entitled to a separate royalty for, e.g., an unrelated braking invention. Likewise, the computer component licensor is entitled to a separate royalty if its asserted system patent is patentably distinctive vis-à-vis the component. If the asserted system and method patents are indeed patentably distinctive from patents covering the components, and the component patents are otherwise unlicensed, there should be no exhaustion. But those are not the facts of *Quanta v. LGE*.

Whether LGE's component and system patents are patentably distinctive is irrelevant because the component sold under license by Intel embodied the inventions of *both* patents. LGE specifically pointed to its U.S. Patent 5,123,108, which LGE asserts is directed to a component, as a "separate" patent.²⁵¹ But this patent is admitted by LGE to be licensed under the LGE/Intel license.²⁵² LGE pointed to its U.S. Patent Nos. 4,939,641; 5,077,733 and 5,379,379, which are asserted patents, as being directed to systems and methods which are purported by LGE not to be licensed to end users because they cover a different invention than is covered by the '108 patent.²⁵³ LGE's example actually makes a compelling argument for exhaustion of all the involved patents. The component patents embodied on the chip as sold were clearly exhausted by the sale of the chip; this is not disputed by LGE. The system and method patents embodied on the chip were *also* exhausted by sale of the chip. LGE's royalty from Intel was for practice of *all* licensed patents—and the system and method patents were licensed via the exhaustion doctrine. The fact that LGE has multiple, and different, patents is irrelevant if the essential features of the system and method claims were included in the chip and the component patents were also licensed (which they were).

Justice Breyer's bicycle hypothetical is useful in illustrating the fallacy of LGE's argument. Justice Breyer's new pedal embodied the inventions of both the pedal patent and the bicycle/pedal system patent but Justice Breyer's pedal did not embody the inventions of both the pedal patent and, for example, a patentably distinctive bicycle/brake system. LGE's argument entirely ignores this distinction. LGE attempts to use its "separate" patents argument to obfuscate the patent exhaustion issue and get around the double royalty prohibition. But what is at issue in an exhaustion analysis is whether a second royalty may be recovered for the *same* article which embodies the invention. LGE's component may well have included a lot of different inventions, but they were all licensed. The only inventions relevant to the issues before the Supreme Court in *Quanta v. LGE* are the inventions implicated by practice of the asserted patents. LGE's argument regarding its component

²⁵¹ Brief of Respondent, *supra* note 3, at 4–5 ("LGE also owns patents claiming individual components used in the systems and methods, including the chipset and microprocessor, e.g., (U.S. Patent No. 5,123,108), but the patents claiming these components—which are independent of the patents claiming the systems and methods—are not at issue here.") (citations omitted).

²⁵² *Id.* at 6 ("Intel was licensed to manufacture, use, and sell microprocessors and chipsets that embodied LGE's component patents."); *see also id.* at 5 n.4 ("LGE did not pursue an action for infringement against petitioners under U.S. Patent No. 5,123,108, covering microprocessors, because LGE had expressly authorized Intel to sell the microprocessors to its customers.")

²⁵³ *Id.* at 5 n.4.

patents is wholly irrelevant because they were licensed, as LGE admits and the Federal Circuit recognized.²⁵⁴ Conversely, Justice Breyer would have to pay a separate royalty to the bicycle/brake system patentee because his purchase of a patented pedal had nothing to do with the brake patent. The brake invention was not embodied in the pedal. However, the inventions of LGE's system and method patents were embodied in the chip sold under license by Intel. LGE's asserted system and method patents were therefore exhausted.

Counsel for Quanta did little at the oral argument to explain the flaw in LGE's "separate" patents argument, despite having been served the perfect vehicle for so doing on a silver platter—Justice Breyer's bicycle hypothetical.²⁵⁵ Once LGE licensed Intel to the patents which included the essential features of the asserted system and method patents, it did not matter that LGE might have separate component patents reciting the same essential features. Quanta's counsel correctly stated that Intel was licensed to sell otherwise contributorily infringing components and that LGE could not recover an additional royalty for practice of the same patents.²⁵⁶ However, Quanta's counsel failed to satisfactorily explain why LGE was not entitled to separate royalties for separate patents. The clear reason is that the essential features of *Univis Lens* and the contributory infringement statute are the patentably distinctive features of the claims. If an LGE component claim includes the essential features of an asserted system or method patent, that claim is not directed to a different invention and thus LGE's "separate" claim argument fails. If LGE's component claim is patentably distinctive, an additional royalty is due assuming the component claim is not already licensed. However, since LGE's argument is that the royalty it has already received is for this "separate" component patent, that patent is, by definition, within the scope of the LGE/Intel license.

To avoid exhaustion, LGE would have to point to a component claim which does not include the essential features of the asserted system patents and which was also not licensed under the LGE/Intel license. The record is devoid of any such claim.²⁵⁷ And even if such claim were to exist, a suit on the patents actually asserted against Quanta is not the proper vehicle for recovering damages for infringement of such claim. A separate infringement action would be required.

Justice Breyer's bicycle analogy is pertinent to show why LGE's "separate" patents argument fails. The argument fails because "separate" patents mean nothing unless they are patentably distinctive. A choice of claim form cannot effect an expansion of statutory scope.²⁵⁸ Patentable distinctiveness, not separateness, is

²⁵⁴ *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) ("LGE granted Intel a license covering its entire portfolio of patents on computer systems and components."), *cert. granted sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

²⁵⁵ Transcript of Oral Argument, *supra* note 19, at 52–54. Quanta's counsel argued on rebuttal that the only relevant patents were the asserted system and method patents, but did not directly counter LGE's "separate" patents argument. *See id.*

²⁵⁶ *Id.* at 3–4, 11.

²⁵⁷ In fact, the record is clear that there is no such claim. *See* Brief of Respondent, *supra* note 3, at 6 ("Intel was licensed to manufacture, use, and sell microprocessors and chipsets that embodied LGE's component patents."); *see also id.* at 5 n.4 ("LGE did not pursue an action for infringement against petitioners under U.S. Patent No. 5,123,108, covering microprocessors, because LGE had expressly authorized Intel to sell the microprocessors to its customers.")

²⁵⁸ Justice Breyer clearly appreciated this point. *See* Transcript of Oral Argument, *supra* note 19, at 47.

the key. Patentable distinctiveness also addresses Justice Breyer's bicycle analogy. If the patentee of Justice Breyer's new bicycle pedal also has a patent on a bicycle system including the novel pedal, the system claims are exhausted and Justice Breyer does not have to pay an additional royalty for his complete bicycle. However, if that same patentee also has a patent on a bicycle system using a novel braking feature, Justice Breyer must pay a separate royalty for that invention if he chooses to install the novel brake on his bike. This is the distinction LGE did not wish to address because it could not point to any relevant patentably distinctive component claims. LGE's counsel instead argued rather boldly that separate royalties would be recoverable for Justice Breyer's pedal and also for use of that pedal in a bicycle covered by a separate patent.²⁵⁹ LGE's argument is directly contrary to *Univis Lens* and attempts to entirely read out the patentable distinctiveness requirement of the exhaustion doctrine and contributory infringement statute.

The simple answer is that Justice Breyer does not have to worry about being hounded by patent inspectors simply because he installs his new pedals on his bike. But if he buys a new brake covered by a system patent, he must pay a royalty for use of that brake. The pedal patent and the brake system patent are distinctive. It makes no difference that the same entity owns patents on the pedal, a system including the pedal and a system including the brake. There is no "exhaustion by privity" where patents are directed to distinct inventions and are not otherwise licensed. Extended to the extreme, *Quanta's* and the Solicitor General's views would result in such exhaustion by privity. There is nothing in any authority to support such an absurd result. On the facts of *Quanta v. LGE*, however, LGE received royalties for all of the patents raised in the litigation, including the component patents which do not include the essential features of the asserted system and method patents. A royalty having been received for the asserted patents under the contributory infringement statute, no further royalty is due pursuant to the patent exhaustion doctrine.

CONCLUSION

The Federal Circuit held in *LGE v. Bizcom* that patent exhaustion could be disclaimed by contract.²⁶⁰ But patent exhaustion is reflective of the scope of patent rights granted by statute. A statutory grant of rights should not be expandable by private contract. The Supreme Court should thus reverse in *Quanta v. LGE*.

The confusion regarding patent exhaustion evident in the Federal Circuit's *LGE v. Bizcom* decision can be entirely eliminated by strict adherence to the Supreme Court's *Univis Lens* decision. *Univis Lens* makes clear that the sale of an article

I think from these briefs, I've gotten the impression that at least some people think that where you invent a component, say, like the bicycle pedals, and it really has only one use, which is to go into a bicycle, it's the easiest thing in the world to get a patent not just on that component but to also get a patent on the system, which is called handlebars, body, and pedals.

Id.

²⁵⁹ *Id.* at 51.

²⁶⁰ *LG Elecs. v. Bizcom Elecs. Inc.*, 453 F.3d 1364, 1369 (Fed Cir. 2006). *cert. granted sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007).

embodying the essential features of a patent claim results in the exhaustion of that claim.²⁶¹ This conclusion applies equally to any type of patent claim, i.e., component, apparatus, composition, system, combination, method, or process claims. Identifying the essential features of a patent claim, i.e., the patentably distinct features, clarifies the exhaustion analysis, results in predictability, and eliminates the confusion between the doctrines of exhaustion and implied license.

Adherence to the essential features dictate of *Univis Lens* would not result in unfettered application of the patent exhaustion doctrine. If there is no attempt to collect double royalty recoveries or engage in proscribed post-sale control, the issue of patent exhaustion never legitimately arises. Under *Univis Lens*, if a patentee merely collects separate royalties for practice of separate and distinct patent claims, there is no collection of double royalties.²⁶² Pursuant to *Univis Lens*, recovery of a royalty for practice of a system or method claim is not double recovery where the purchased component, whether or not the component is patented, does not embody all of the essential features of the system or method claim. Exhaustion does not apply in such circumstances. However, if a component embodies the essential features of a system or method claim, under *Univis Lens* the authorized sale of such component exhausts the system or method claim, whether or not the component is patented. Thus, where a purchaser obtains a component from a licensed source and the component embodies the essential features of a system or method claim, the exhaustion doctrine applies if there is an attempt to collect a royalty for practice of the system or method claim. That is the factual situation in *Quanta v. LGE*. Reversal is thus compelled.

The Supreme Court should also reverse in *Quanta v. LGE* based on 35 U.S.C. § 271(c), the contributory infringement statute. The statute mandates that unpatented nonstaple, material components sold under license exhaust combination or method patents in which such components are used.²⁶³ In fact, patent exhaustion and contributory infringement merge into the same doctrine in the case of an unpatented nonstaple material component and the Supreme Court, in *Dawson*, has been clear that such a component is a patentably distinctive element having the same meaning as the usage in *Univis Lens*. The components at issue in *Quanta v. LGE* are unpatented in that the essential features of the asserted system and method patents are not covered by patentably distinctive and unlicensed patents. LGE's "separate" component patent argument thus cannot save its asserted system and method patents from application of the contributory infringement statute and patent exhaustion doctrine. LGE's component patents were licensed under the LGE/Intel agreement. LGE did not seek to recover royalties for component patents via the *Quanta v. LGE* litigation. LGE sought instead to recover royalties for use of inventions which were embodied in the component but not covered by patents other than the asserted system and method patents. LGE's suit thus had nothing to do with its "separate" component patents and the existence of such licensed patents has no effect whatever on the operation of the patent exhaustion doctrine and contributory infringement statute to exhaust rights to a further royalty for the component containing the patentably distinctive features of the asserted system and method patents.

²⁶¹ *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942).

²⁶² *Id.* at 252.

²⁶³ 35 U.S.C. § 271(c) (2006).

The Supreme Court should reverse the Federal Circuit holding in *LGE v. Bizcom* but should not extend the patent exhaustion doctrine to cover patentably distinctive and unlicensed patents. A reversal of *LGE v. Bizcom* limited to its facts would be consistent with, and is compelled by, controlling precedent of the Supreme Court and the contributory infringement statute.

Justice Breyer's bicycle need not collide with the ignored elephant of patent exhaustion (essential features). But if the Supreme Court looks away from the elephant in the room in its disposition of *Quanta v. LGE*, the elephant and Justice Breyer's bicycle are destined to collide.